

ZHAW – Zurich University of Applied Sciences
School of Management and Law

**Foreign Direct Investment in Kosovo:
Factor Analysis and Business Profile from a Swiss
Perspective**

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By

Ardian BEQIRI (S12560108)

Supervisor

Dr. Florian KELLER

Co-Supervisor

Consul Visar RRECAJ

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Management Summary

More than 150'000 residents in Switzerland have a Kosovan background and they all contribute towards forming awareness and perception of Kosovo among Swiss people. Switzerland is also one of the most important countries of origin for foreign direct investment (FDI) in Kosovo and is still growing steadily. Yet, there is only limited academic research on the investment relations of the two countries. This thesis therefore aimed to analyze the investment climate of Kosovo while maintaining a Swiss perspective. It further aimed to propose a suitable investment profile based on the analysis. It achieves this by using a qualitative approach based on literature review and expert interviews. The thesis follows a topical structure, which supports the explorative nature of the study. The analysis is conducted according to environmental, enabling or perceptive factors. The key findings of the factors analysis include:

Environmental

The investigation of the economic and business factors revealed a rather small and poor market, despite a continuous economic growth above the average of the Euro zone and the region. Thanks to de-bureaucratization and simpler procedures, Kosovo was able to create an increasingly appealing business environment and climb the ease of doing business ranking. The currency stability is given due to the unilateral euroization in 2002. But the country still lags behind in terms of supply and cost of energy. Kosovo suffers from a trade deficit due to high demand for consumption goods, which can only be met through imports. The political and legal factors were found to greatly hamper FDI. Political instability, weak rule of law and corruption impact the investment environment and attraction of foreign investors. Global integration is steadily progressing, the most important achievements include the Central European Free Trade Agreement (CEFTA) and the trade preferences with the European Union. Kosovo has the youngest population in Europe but the private sector does not grow fast enough to employ all of them, resulting in high youth unemployment. High availability of labor in combination with the most competitive costs of labor within the region are a major advantage for attracting investors from abroad. The education system needs urgent reforms and the focus should be shifted from tertiary to vocational education in order to meet professional requirements of investors. A high number of Kosovans live outside the country, particularly Switzerland and Germany have been popular destinations for migration. The diaspora still sends remittances back home officially amounting close to 700 EUR mn a year. Educational background, professional skills, networks and other potential key benefits though, largely remain idle in Kosovo.

Enabling factors

Enablement includes factors for improving the investment location and increasing investment from abroad. Factors for improvement indicate a good legal basis, thanks to non-discrimination clauses for

investors from abroad and the possibility to obtain strategic investment status. It further hints towards increasing improvement thanks to business-friendly reforms and international collaboration. Strategies to develop the investment location meet international standards and are promising. A crucial issue however, remains the adequate and timely implementation of said strategies. The factors for increase, address measures to attract foreign investors. The investment promotion competences include traditional activities but also policy advocacy. State owned entities from the Yugoslav era have largely been privatized, of which many have turned successful in the hands of foreign investors. A wide range of mostly fiscal incentives can be offered to investors. Nevertheless, the provision of information for incentives is not transparent enough.

Perceptive Factors:

Kosovo still suffers from a bad image due to war and political coverage in foreign media. Image is among the key reasons that prevents investors from committing large resources or even entering Kosovo. Perceptive discrepancies become clearer as current investors have a more positive perception of Kosovo than potential investors. Labor related matters are most beneficial according to foreign investors, political matters are least. Image building needs to be improved based on progress and truth.

The findings of the analysis suggest a set of characteristics, of which a combination can be regarded as a suitable investment profile for Kosovo as an investment location. Success however, is by no means limited to the identified characteristics. Large-scale investments are not very suitable in Kosovo. Reasons are the domination of small businesses with less than 5 employees who make up 96% of the market, domestic conditions such as political instability, insufficient global integration, weak rule of law and corruption. More favorable conditions for medium to larger investments can be experienced for investment enterprises who are awarded strategic investment status. Investment projects that require labor intensive activities will have an advantage in Kosovo thanks to very low labor costs. The quality of labor or skills is dependent on the complexity of the work. The impression prevails that less complex activities will find a greater availability of labor in Kosovo. Due to the large trade deficit, there are no custom duties on goods for export but also investment activities that can cost-efficiently substitute for imports will meet a high demand. Finally, Kosovo shows great potential as a near-shore location for outsourcing activities.

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Abbreviations

CEFTA	Central European Free Trade Agreement
EULEX	European Union Rule of Law Mission Kosovo
FDI	Foreign Direct Investment
IFC	International Finance Cooperation
IPA	Investment Promotion Agency
KCC	Kosova Chamber of Commerce
KIESA	Kosovo Investment and Enterprise Support Agency
KLA	Kosovo Liberation Army (UÇK – Ushtria Çlirimtare e Kosovës)
M&A	Mergers and Acquisitions
MIGA	Multilateral Investment Guarantee Agency
MNE	Multinational Enterprise
NATO	North Atlantic Treaty Organization
NDS	National Development Strategy
NPISAA	National Programme for Implementation of the Stabilisation and Association Agreement
OECD	Organization for Economic Co-operation and Development
PAK	Privatization Agency of Kosovo
SAA	Stabilization and Association Agreement
SME	Small and Medium Sized Enterprises
SOE	State Owned Entity
UN	United Nations
UNSC	United Nations Security Council
VV	Levizja Vetëvendosje (Movement of Self-determination)

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1 Introduction

The Republic of Kosovo (hereafter referred to as “Kosovo”) is by no means an unknown, exotic country to people from the Swiss Confederation (hereafter referred to as “Switzerland”). Today, more than 150’000 people with a Kosovan background living in Switzerland have contributed towards creating awareness of the country among the Swiss population. Swiss people mostly associate Kosovo with the news covering the war but also with the language and culture perceived from neighbors, co-workers and friends coming from there. Residents from Kosovo have been a part of the Swiss population since the 1960s, when they started to migrate as guest workers and the Kosovan territory still was part of Yugoslavia (Burri Sharani, et al., 2010).

The support from the population abroad as well as state aids from Switzerland have helped to rebuild the country after the war and the deployment of Swiss armed forces have contributed towards bringing stability to the region. Swiss institutions have ever since continued to support the country in various ways and after the declaration of independence in 2008, Switzerland was among the first countries to recognize it. The close relationship with Switzerland and appreciation of their help continuous to foster respect and admiration.

Also in business terms, Switzerland is a globally oriented country, not least thanks to its position as a metropole for international business. This global mindset and the affiliation to Kosovo have surely made investors aware of the country as a location for business. Swiss investors have increasingly participated in the Kosovan market with its favorable conditions, becoming one of the most important sources of origin for foreign direct investment (FDI). The transitioning economy of Kosovo is growing but faces different challenges, which can be solved through investments from abroad. Consequently, there is a mutual interest from both sides for direct investment relations.

1.1 Justification

In the last three years alone, Switzerland has continuously been the country of origin for the largest FDI inflows and among the highest in terms of overall volume (see chapter 4.3). Swiss companies are widely respected and help to shape best practices and work ethics in Kosovo. Despite rather large proportional investments to Kosovo, there are only limited academic studies from Switzerland that have researched this relationship.

It is of outmost importance to critically look at the investment location while maintaining a Swiss paradigm. Only then will it be possible to assess the conditions and provide clarification for foreign investors, which in the end will benefit both parties.

1.2 Methodology

The thesis follows a qualitative approach and uses primary and secondary data for information gathering. The thesis aims to capture a realistic understanding of FDI in Kosovo, while maintaining a Swiss perspective. The research design includes a field research phase in Kosovo in order to give back inside knowledge.

1.2.1 Research Objective and Questions

The thesis aims to investigate the investment climate of Kosovo relevant to investment from abroad. It accomplishes this by identifying and analyzing wide ranging factors. These factors are either associated to or influence foreign investment decisions or operations. While doing so, the thesis will maintain a Swiss perspective and regularly confront the conditions. Based on the analysis, the thesis shall then allow to propose an investment profile, which is favorable for the investment location in Kosovo.

Research Question 1:

“Which opportunities and challenges do the relevant factors of the investment location hold for investors from abroad?”

Research Question 2:

“Which profile of a Swiss investor is suitable to engage in foreign direct investment based on the findings from research question 1?”

1.2.2 Research Design

In an initial phase, the author has consulted secondary data through academic and professional literature as well as through media to receive a broad and objective understanding of the topic to be investigated.

During an in-depth research phase, the author has attended the professional conference “Switzerland – Kosovo Investment and Trade Forum” held on June 24, 2017 in Zurich, organized by the Chamber of Commerce Switzerland – Central Europe and the Kosovo Investment and Enterprise Support Agency (KIESA).

The author has further conducted interviews to include perceptions and inside knowledge of Swiss and Kosovan perspectives. The author has travelled to the capitol of Kosovo, Prishtina from June 23, 2017 to July 1, 2017 to receive further insights through expert interviews with domestic parties related to FDI in Kosovo. Further valuable reports and papers were handed over to the author during the stay in Prishtina and contained major information relevant to the objective of the thesis. The table below clusters the semi structured interviews conducted, the transcripts of each interview can be found in the appendix.

<i>Perspective</i>	<i>Cluster</i>
Swiss Perspective	Swiss Institutions
	Swiss Investors
Kosovan Perspective	Kosovan Institutions

Table 1: Interview Clusters (author's own illustration)

Data concerning FDI figures in Kosovo is crucial for the conduct of this thesis and needed to be selected carefully. An independent source for this data could not be detected domestically. A valuable source for FDI data was made available to the author through the FDI Database of the Vienna Institute for International Economic Studies (wiiw) in the form of a temporary researcher access.

The thesis follows a topical structure, where subjects connected to the research objective are discussed. This approach emphasizes the explorative nature of the thesis as only limited Swiss academic research exists and hence a fundament had to laid.

In order to achieve a structured analysis of the investment climate related to the research objective, a factors model was used. Figure 1 presents an illustration of the analyzed factors that enclose all aspects relevant to investment operations from abroad. The factors were formed according to information available and frequency and/or impact of the issues addressed.

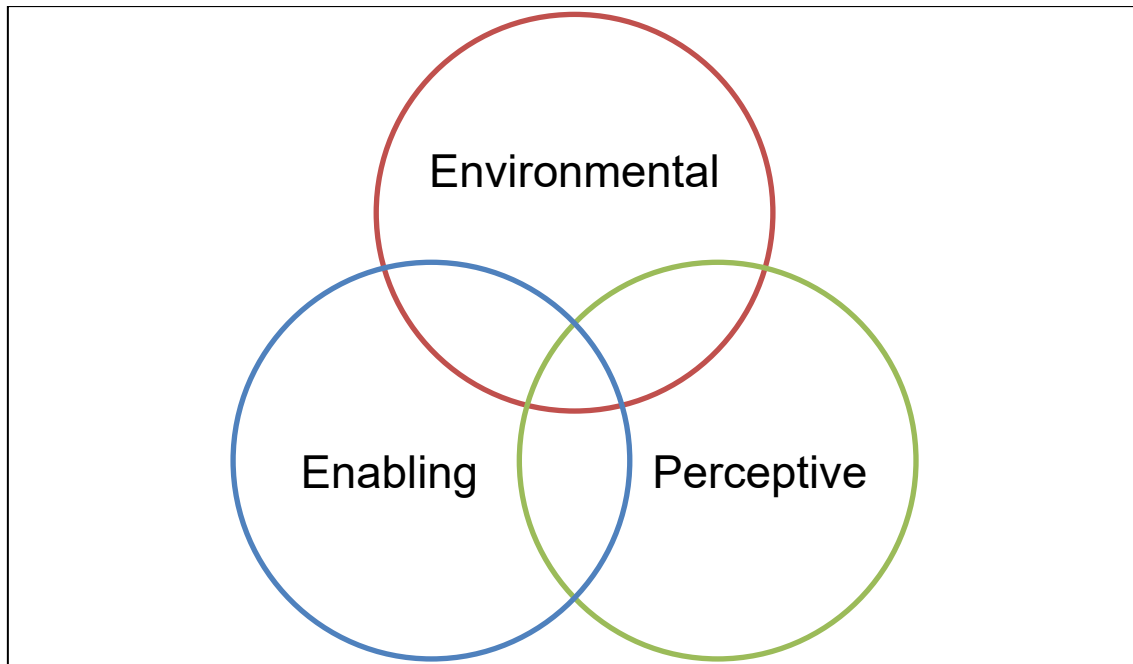


Figure 1: Investment Factors Model (author's own illustration)

The content of the thesis is structured as follows:

Chapter 1: Justifies the thesis and describes the methodology used.

Chapter 2: Gives background information relevant to understanding the historical context.

Chapter 3: Defines and describes foreign direct investment as a basis for mutual understanding.

Chapter 4: Gives back the key figures of foreign direct investment in Kosovo.

Chapters 5, 6 and 7: Analyze the investment factors.

Chapter 8: Introduces a suitable investment profile according to the findings of the analysis.

Chapter 9: Discusses the research questions.

Chapters 10, 11, 12, 13 and 14: Describe the implications, critical evaluation, further research, limitations and conclude the thesis.

1.2.3 Domain

The domain of the thesis is limited in terms of timeframe for two reasons: 1) As a transition country, Kosovo went through extensive changes during a rather short period of time. In order to grasp the current situation of the country for investments from abroad, the most recent information was prioritized. 2) The further back an outsider looks at the data of the country, the less consistent the allocation is. Kosovo has only declared independence in 2008 and around that time statistical information becomes denser. Prior to this, data is only partially or fragmentally available. During the Yugoslav Era, the ascription of data solely to Kosovo is nearly impossible.

Although the thesis focuses on Kosovo as the investment location, the regional comparison was often done to bring the country into context. The topic is investigated through a Swiss perspective and thus regularly refers to Switzerland for various subjects.

The thesis further only considers the inward direction of foreign investment. Investors from Kosovo engaging in other countries are not taken into account.

Since a single thesis can never capture a full picture of an investment location, the topics considered in this paper were chosen rather broad and according to their actuality and frequency of mentions by external sources or their potential impact on investment conditions.

1.2.4 Target Audience

The audience targeted for this thesis include but is not limited to:

- Swiss-Kosovan or Kosovan institutions, authorities, organizations and associations operating in related fields of foreign direct investment.
- Private and corporate investors from Switzerland who are either engaged in Kosovo or might consider to engage in the country.
- Economic and business researchers from Switzerland interested in investment conditions in Kosovo or domestic economic and business researchers interested in the Swiss perspective about investment conditions in Kosovo.

2 Background

In order to grasp the information relevant to this thesis, one needs to gain a general understanding of the historical background and its potential relevance for direct investment. This chapter aims to objectively give back the recent history of Kosovo without going too deep into the thesis matter. Backgrounds about Switzerland will not be provided as the thesis only focuses on Kosovo as an investment location. The chapter is organized in periods.

2.1 Pre-War Period

Under the Milosevic regime that started in 1989, the status of Kosovo as an autonomous province was repealed and many Albanian ethnics holding positions in public offices or state-owned (industrial) firms were laid off. Due to the worsening political situation in Kosovo and increased unemployment among the Albanian ethnic populations, residents that had already lived in Switzerland made use of the right for subsequent migration of family members that allowed their families to migrate to Switzerland (Burri Sharani, et al., 2010).

2.2 War Period

The tensions quickly escalated into a conflict between the forces of the Federal Republic of Yugoslavia and the Kosovo Liberation Army (KLA), who received incremental funding from the diaspora. Nearly 860'000 ethnic Albanians were forced from their homes in Kosovo. This represented a relatively unusual event in the history of refugee movements. Most fled or were expelled to Albania (444'600), Macedonia (344'500) and Montenegro (69'000) (UNHCR, 2000). Another wave of subsequent migration of family members was felt during that time as Albania and especially Macedonia had difficulties to handle those amounts of refugees and hence often were not able to offer basic needs (Blunski, 2015).

After a year of failed attempts to resolve the conflict with diplomatic means, the North Atlantic Treaty Organization (NATO) intervened with air strikes on Belgrade during operation "Allied Force" that started on March 24, 1999 and lasted 78 days. On June 10, 1999, the Federal Republic of Yugoslavia accepted the withdrawal of its military, police and paramilitary forces (NATO, 2016).

An estimated 53'000 refugees from Kosovo had stayed in Switzerland during the war, of which two thirds returned home by September 2000 under the voluntary repatriation program (Swissinfo, 2000).

2.3 Post-War Period

What followed was the post-war period, when the population returned back to Kosovo and tried to rebuild the war-torn country, this was mainly possible due to immense remittances from the Kosovan diaspora (see chapter 5.3.4). The international community too, including Switzerland, offered support for the transition but also in the form of donations.

The United Nations Security Council's (UNSC) resolution 1244 from June 10, 1999 aimed to bring back security and stability to the region. The resolution included the decision, among many others, as to establish an international civil and security presence in Kosovo endorsed and adopted by the United Nations, capable of guaranteeing the common objectives (UN, 1999).

The international civil presence was the base for the United Nations Interim Administration Mission in Kosovo (UNMIK). The mission's objectives included the coordination of operations according to the resolution as well as to ensure conditions for a peaceful and normal life for all inhabitants of Kosovo. Part of this was building up and operating administrative activities and then transferring the responsibilities when domestic institutions established. The tasks of UNMIK were unprecedented in scope and complexity as it held authority over the territory and people of Kosovo, including all legislative and executive powers as well as the administration of the judiciary (UN, 2016). Although still operating today, UNMIK has transferred most responsibilities to domestic institutions or other international organizations.

The international security presence laid the base for the deployment of troops as part of NATO's peace support operation in Kosovo (NATO, 2016). The Swiss federal council had decided to engage Swiss troops as part of the KFOR mission on 23 June 1999. The Swisscoy was then deployed in October 1999 until end of 2000. The mandate was continued and the responsibilities and funding expanded (Federal Gazette, 2003). Swisscoy currently continues its engagement in Kosovo until end of 2020.

2.4 Post-Independence Period

Kosovo has declared independence on February 17, 2008, after attempts from the international community had failed to resolve a final status to which both, Kosovo and Serbia would agree to. The declaration of independence was tagged illegal by the Serbian government and brought before the international court of justice. The court ruled that the declaration did not violate international law and that the independence is legal (Beaumont, 2010).

The constitution of Kosovo came to effect on June 15, 2008 declaring Kosovo a multi-ethnic parliamentary republic and was widely influenced by the UN resolution (see chapter 2.3) and the “Athisaari Plan”, formally the “Comprehensive Proposal for the Kosovo Status Settlement”. The former president of Finland and Nobel peace prize recipient Martti Athisaari, was appointed as special envoy by UN secretary general Kofi Annan to resolve the status question of Kosovo. His proposal laid the fundamental framework for the constitution (Gallucci, 2011).

Up to today, Kosovo has been recognized as an independent nation by 114 out of 193 UN member states. Switzerland recognized the independence within 10 days after the declaration and has established diplomatic and consular collaborations since (MFA Kosovo, n.d.).

3 Foreign Direct Investment

FDI is a key component of global economic integration (Investopedia, n.d.). The following chapter defines the terms around foreign direct investment, explains the methods, views and its benefits and costs.

3.1 Definition

Foreign Direct Investment occurs when a firm directly invests in facilities to produce or market a product in a foreign country. The scale of investment to be considered FDI might differ from country to country. In the United States for example, the department of commerce recognizes FDI when a U.S. citizen, organization, or affiliated group takes an interest of 10% or more in a foreign business entity (Hill, 2009).

Since both countries to be analyzed, or organizations residing in which, might have different definitions for terms related to FDI, this thesis agrees on the definitions as for the Organization for Economic Cooperation and Development's (OECD) glossary of FDI terms and definitions (OECD, 2008):

Foreign Direct Investment (FDI)

FDI is a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise. The direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship. Some compilers may argue that in some cases an ownership of as little as 10% of the voting power may not lead to the exercise of any significant influence while on the other hand, an investor may own less than 10% but have an effective voice in the management. Nevertheless, the recommended methodology does not allow any qualification of the 10% threshold and recommends its strict application to ensure statistical consistency across countries.

Foreign Direct Investment Enterprise

A foreign direct investment enterprise is an enterprise resident in one economy and in which an investor resident in another economy owns, either directly or indirectly, 10% or more of its voting power if it is incorporated or the equivalent for an

unincorporated enterprise. The numerical threshold of ownership of 10% of the voting power determines the existence of a direct investment relationship between the direct investor and the direct investment enterprise. An ownership of at least 10% of the voting power of the enterprise is regarded as the necessary evidence that the investor has sufficient influence to have an effective voice in its management.

Foreign Direct Investor

A foreign direct investor is an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, at least 10% of the voting power of a corporation (enterprise), or equivalent for an unincorporated enterprise, resident in another economy. A direct investor could be classified to any sector of the economy and could be any of the following:

- (i) an individual;*
- (ii) a group of related individuals;*
- (iii) an incorporated or unincorporated enterprise;*
- (iv) a public or private enterprise;*
- (v) a group of related enterprises;*
- (vi) a government body;*
- (vii) an estate, trust or other societal organization; or*
- (viii) any combination of the above.*

In the case where two enterprises each own 10% or more of each other's voting power, each is a direct investor in the other. A direct investor has a direct investment enterprise operating in a country other than the economy of residence of the foreign direct investor.

3.2 Methods

FDI require some sort of ownership and significant voting power in an enterprise located in another country and are typically categorized in two main forms on how the investment is made.

Greenfield investments involve the establishment of a new operation in a foreign country such as by founding a company. **Brownfield investments** involve acquiring or merging with existing companies in the foreign country. Mergers and acquisitions (M&A) are the more common form of FDI (Hill, 2009). The United Nations estimated the value of cross-border M&A at 869 USD bn compared to 828 USD bn for announced greenfield investments in 2016 (UNCTAD, 2017).

There are different reasons why firms prefer to acquire existing assets opposed to undertaking greenfield investments. A major advantage in engaging in brownfield investments is that M&A are quicker to execute and it enables strategic advantage (see chapter 3.4).

The nature of an investments can also be distinguished and is typically categorized in three different types. A **horizontal** investment is one in which the same type of business operation in a foreign country is established as it operates in its home country, for example, McDonald's based in the United States opening up fast food restaurants in Europe. **Vertical** investments refer to investments in which different but related business activities from the investor's home business are established or acquired in a foreign country, such as when a manufacturing company acquires an interest in a foreign company that supplies raw materials required for the production of the manufacturing company. A **conglomerate** type of foreign direct investment is one where a company or an individual undergoes a foreign investment in a business that is not related to its existing operation in its home country. Since this type of investment involves entering an industry the investor has no previous experience in, it often takes the form of a joint venture with a foreign enterprise or individual already operating in the industry (Investopedia, n.d.).

3.3 Quantification of FDI

An economy should always measure its FDI, which enables them to understand patterns and trends and hence being able to act accordingly. These values are usually tracked by governmental institutions and central banks. The two most common sets of measures for FDI are:

Net inflows/net outflows

FDI net inflows are the value of inward direct investments made by non-resident investors in the reporting economy for a given period. FDI net outflows are the value of outward direct investments made by the residents of the reporting economy to external economies for a given period (The World Bank, n.d.). The definition therefore describes that positive as well as negative inflows and outflows can exist.

Inward/outward stock

FDI stocks measure the total level of direct investment at a given point in time, usually the end of a reporting period. The inward FDI stock is the value of foreign investors' equity in and net loans to enterprises resident in the reporting economy. The outward FDI stock is the value of the resident investors' equity in and net loans to enterprises in foreign economies (OECD, 2016).

3.4 Benefits and Costs of FDI

FDI bring a variety of benefits and costs for economies directed to or the investors engaging in. This chapter gives an overview of the primary advantages and disadvantages through FDI.

3.4.1 Benefits and Costs for Investors

The following reasons explain the major benefits and costs of FDI from an investor's point of view:

Benefits

Major benefits for investors on why to engage in FDI include strategic reasons. Often investors engage in FDI to gain competitive advantage. Especially with regards to brownfield investments, investors can decide to participate in well performing existing firms by partnering up with a market leader. But also undergoing M&A with market leaders will serve the investor by preventing a strategic competitor from buying shares of said leader. More specifically, Knickerbocker (1973) suggests that in oligopolistic environments companies will engage in the same countries as their competitors in order to avoid them predominating a domestic market or withhold viable sources.

FDI is often also used to secure valuable strategic assets such as patents & trademarks, distribution systems, production systems, customer relationship, brand loyalty, etc. It usually is easier and less risky to acquire these assets than to build them up from the ground. Strategic assets can include unused resources, which becomes a major argument for undergoing greenfield investment (Hill, 2009).

More obvious benefits of FDI include the maintenance of control over the supply chain or distribution in the foreign market. It is also frequently used to optimize the financial performance such as through moving production to countries with low-cost labor force. Finally, FDI are also undergone by companies in order to avoid trade barriers or import quotas as this could be a limitation for export and licensing (Hill, 2009).

Costs

Investors who enter a foreign market need to operate according to the given investment climate. Policies are likely to differ in host countries compared to the home country, which requires them to adapt their models. This usually leads to high cost of transformation or change for the corporation. Further costs can occur if the countries have no tax agreements, which can lead to double taxation. Given the conditions in the host country, investors might encounter efficiency and quality forfeits, which they will either have to justify or to correct. The differences in culture can further impact the investment activities, leading to additional costs. A mutual corporate

culture needs to be established and taught, that allows for effective investment operations (Hill, 2009).

3.4.2 Benefits and Costs for Host Countries

The following reasons explain the major benefits and costs of FDI from a host country's point of view:

Benefits

Countries that host FDI can have a wide range of beneficial effects when foreign companies settle and participate in their economy. Resource-transfer effects include availability or access to: capital, technology and management resources (Hill, 2009). The host economy might lack these kinds of resources and will experience exposure to those productivity factors through multinational enterprises (MNE), which in turns will boost economic growth rate. Foreign-owned firms in general pay higher wages in host countries than domestically-owned and their presence, in general, leads to rising wage levels in host countries. Foreign firms can afford higher wages due to generally higher productivity than local firms (Lipsey, 2002). In a long-term view, the host country's industry will profit from the resources and knowledge of FDI enterprises. Also, the economy profits in general because foreign firms invest significantly more capital in domestic R&D compared to local companies, suggesting that the economy can upgrade existing technology or create new technology (The Economist, 2000).

FDI further have employment effects that are beneficial for host economies. Foreign firms are faster at creating new jobs than domestic ones. Creation of new jobs account for direct jobs, such as through greenfield investment or by developing an existing economy. Indirect job creation occurs through suppliers who experience increased demand in the industry or higher buying power of employees (The Economist, 2000).

Another effect of FDI is its potential impact on balance of payments, also known as current account, which tracks imports and exports of goods and services. Countries' governments are interested in having a current account surplus rather than a deficit. FDI can support current accounts in two ways: (I) If the FDI substitutes for imports of goods and services, it potentially positively impacts the current account through fewer imports. (II) If MNE operate in a foreign country and export their goods and services to other countries, this might positively impact the current account by increasing the export volume (Hill, 2009).

As foreign firms participate in the domestic market, this leads to increased supply and lower prices, thus greater consumer choice, which in turn leads to higher domestic competition. The firms then need to optimize and develop as they struggle to gain competitive advantage. The long-term results are: increased productivity, product and process innovation and greater economic growth (Ram & Zhang, 2002).

Costs

Increased competition from abroad is not necessarily helpful for the indigenous players, as MNE usually have greater access to funds generated elsewhere and use them to strengthen their position in a particular country. This uneven competition can go as far as driving local firms out of business. Furthermore, if foreign organizations acquire multiple domestic firms and subsequently merge them, it factually decreases competition and could lead to a monopolistic environment where prices can be dictated. This is especially the case for developing countries where there are few or no large domestic enterprises (Hill, 2009).

FDI can have a negative effect on balance of payments as well, such as when foreign subsidiaries outflow earnings to its parent company, governments usually try to fight against it by restricting the amount of earnings that can be repatriated to the foreign firm's home country. Also, if foreign companies import operational inputs from abroad, this can result in a charge on the current account (Hill, 2009).

3.5 Political Views towards FDI

Historically, politics has had different opinions with regards to FDI. They can be assigned to either of the three different views below.

3.5.1 Radical View

The radical view finds its roots in Marxist political and economic theory, where supporters of radical views argue that MNE are instruments of imperialist suppression. MNE are seen as exploiters of the host country to the benefit of their capitalist-imperialist home country. Supporters of the radical view agree that MNE have no interest in supporting the host country as they keep tight control over advanced technology and key jobs that are not shared with the citizens of the host country. Extreme views even go as far as stating that no country should ever permit foreign firms to undertake FDI and even more, when MNE have already settled they should be nationalized by the host country (Hill, 2009).

Even today, some governments still feel their economies or sectors threatened by MNE and label them as foreign suppressors. A rather recent event in this connection happened in February 2016 when Robert Mugabe, president of Zimbabwe, announced that the government will take control over all diamond operations in the country. Mugabe said that companies that have been mining diamonds have robbed Zimbabwe of their wealth, which is why the state must have a monopoly (Reuters, 2016). As this view holds quite a high risk of added obstacles and unfair competition, MNE will face a hostile environment for their investments and therefore will avoid countries that indicate a radical view.

3.5.2 Free Market View

Based on classic economics and the international trade theories of Adam Smith (e.g.: Smith, 1759; Smith 1776) and David Ricardo (e.g.: Ricardo, 1817), stems the free market view. It claims that international supply or production should be divided among countries according to the theory of competitive advantage. Countries should specialize in the production of goods and services that they can produce most efficiently. In line with the argumentation, MNE are instruments for allocating the production of goods and services to the most efficient locations in the world. According to this reasoning, FDI generated through MNE increase overall efficiency of the world economy (Hill, 2009).

Therefore, politics that share the free market view will aim to remove boundaries and specialize in certain tasks or industries in order to attract foreign direct investment.

3.5.3 Pragmatic Nationalism

In practice, the pragmatic nationalist view is the most common understanding towards international business and is adopted by most countries. It represents neither a radical nor a free market policy towards FDI but instead a policy that combines parts of both. A perfect example for this are the trade and FDI policies by the Chinese government (Branstetter & Feenstra, 1999). The pragmatic nationalist view realizes that FDI come at both benefits and costs for the host country (see chapter 3.4.2). By recognizing this, policy makers who have adopted a pragmatic stance pursue policies designed to maximize the national benefits and minimize national costs (Hill, 2009).

This view therefore supports the permission of FDI but only as long as the benefits outweigh the costs for the country. Therefore, benefits and costs from FDI should be critically tracked to allow an objective assessment.

4 FDI break down in Kosovo

This chapter aims to give back the FDI market factor in Kosovo by describing the current status, the activities its related to and the countries it originates from. The data for this chapter was obtained from temporary researcher access to the “wiiw – FDI Databases”. Wiiw is the German acronym of the “Vienna Institute for International Economic Studies”.

4.1 Kosovo FDI Total

The table below illustrates the most important figures for FDI in Kosovo based on inflows/outflows and inward/outward stock for, where available, up to the 12 previous years.

The peak for FDI inflows was achieved in 2007 with 440.7 EUR mn, the year before the declaration of independence. It can be safely assumed that these inflows primarily came thanks to the diaspora who was optimistically awaiting a positive resolution of the status question. FDI inflows are quite volatile in Kosovo and had a 10-year low of 151.2 EUR mn in 2014. Political instability (see chapter 5.2.1), an underperforming business environment and the failed telecom privatization were among the reasons for the substantial decline of net FDI (KPMG, 2016). Last year’s inflows, standing at 215.9 EUR mn, represent the 2nd lowest in the 10-year period.

With 2 to 18% of the value for inflows, outflows are comparatively low and volatile as well but clearly indicate a positive trend. The increasing outflows could indicate maturing quality and/or efficiency that can compete with foreign products and services. Another reason for increasing outflows could be the same as for the inflows, that is the political instability. Managers and business owners could decide to resettle abroad to not be subject to domestic uncertainty. The all-time high was achieved only last year with 39.6 EUR mn.

Inward and outward stock have ever been growing since 2007, mainly thanks to inflows, respectively outflows, and indicate healthy business development and re-investment within the economy. With a steadily increasing FDI inward stock to GDP ratio, the total value of FDI within Kosovo is growing proportionally faster than the economy. Table 2 illustrates the total FDI numbers.

Direction	Unit	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
FDI inflow	EUR mn	294.8	440.7	366.5	287.4	365.8	393.9	229.1	280.2	151.2	308.8	215.9
	EUR per capita	178.6	262.6	213.1	164.5	206.1	219.2	126.8	154.1	83.4	172.7	182.3
	in % of GDP	9.4	12.7	9.4	7.1	8.3	8.2	4.5	5.3	2.7	5.3	3.6
FDI outflow	EUR mn	5.6	9.7	25.0	10.5	34.7	15.7	15.8	30.0	27.3	37.1	39.6
	EUR per capita	3.4	5.7	14.4	6.0	19.4	8.7	8.7	16.5	15.1	20.9	22.4
	in % of GDP	0.2	0.3	0.6	0.3	0.8	0.3	0.3	0.6	0.5	0.6	0.7
FDI inward stock	EUR mn	.	924.5	1290.9	1582.4	1960.9	2326.1	2524.3	2816.4	2961.4	3254.4	3442.9
	EUR per capita	.	544.1	744.7	898.5	1096.5	1293.2	1390.4	1547.0	1640.7	1837.0	1952.8
	in % of GDP	.	26.7	33.2	38.9	44.5	48.3	49.9	52.9	53.2	56.0	57.5
FDI outward stock	EUR mn	.	15.2	40.4	51.6	86.4	102.0	117.8	147.5	174.6	211.5	251.1
	EUR per capita	.	9.0	23.3	29.3	48.3	56.7	64.9	81.0	96.7	119.4	142.4
	in % of GDP	.	0.4	1.0	1.3	2.0	2.1	2.3	2.8	3.1	3.6	4.2

Table 2: Total FDI - Kosovo (based on: wiiw.databases, 2017)

4.2 Kosovo FDI by Activities

Table 3 illustrates Kosovo's FDI inflows and inward stock by activities according to the statistical classification of economic activities in the European community¹. FDI in Kosovo is heavily concentrated in low-productivity sectors, apart from real estate and financial services which are vulnerable to shocks (World Bank Group, 2017). What stands out immediately is the large and increasing value of FDI inflows from real estate activities. This activity class alone makes up 66.6% of all 2016 inflows. Real estate activities include buying and selling of own real estate, renting and operating of own or leased estate, real estate agencies and management of real estate on a fee or contract basis (Eurostat, 2008). A reason for the strong activities concerning real estate is the increasing urbanization in the major cities of Kosovo. The financial sector inflows account for foreign bank activities due to high capital demand. Although sometimes in the past quite volatile, the inflows from construction and administrative activities are still very important. Despite mineral reserves in the northern part of the country and the passing of a law to privatize state owned mines, which is yet to be executed, Kosovo has experienced a series of negative inflow numbers for mining and quarrying activities (Swiss Embassy in Kosovo, 2017). This means that more companies related to mining and quarrying are leaving, than entering the country.

¹ NACE Rev. 2 (Eurostat, 2008)

The mining sector is rather long term oriented (Gërxhaliu, 2017) and hence might be more risk averse towards political instability, especially because territories with large mineral reserves are yet disputed. Real estate activities also hold the highest portion for inward stock, peaking with almost 1 EUR bn in 2016. It is followed by “not elsewhere classified activities” with very stable 863 to 872 EUR mn in the past 5 years. Despite extensive research, a break-down of this activity could not be found, which would explain the composition of these values. Since there are only unsubstantial inflows for this activity and it does not seem to correlate with periodic fluctuations of other activities, it can be assumed that a major share for inward stock of this classification are related to activities from the international community, such as cooperation institutions. Financial and insurance activities as well as administrative activities are two additional industries that have shown steady increase during the past 5 years.

in EUR mn

Direction	Industry/Product	2012	2013	2014	2015	2016
FDI Inflow	Total by activities	229.1	280.2	151.2	308.8	216.0
	A - Agriculture, forestry and fishing	-0.7	0.4	0.2	0.9	1.3
	B - Mining and quarrying	-24.5	-14.1	4.1	-36.9	-22.1
	C - Manufacturing	33.8	13.8	-35.1	20.0	4.9
	D - Electricity, gas, steam, air conditioning supply	37.5	63.0	5.9	12.9	-0.3
	E - Water supply, sewerage, waste manag., remediation	1.4	2.1	2.7	1.7	0.6
	F - Construction	30.4	15.3	-19.9	43.1	28.1
	G - Wholesale, retail trade, repair of motor vehicles etc.	14.2	14.5	8.3	12.6	12.3
	H - Transportation and storage	0.7	0.8	0.7	0.4	0.9
	I - Accommodation and food service activities	0.6	0.3	0.1	0.0	0.8
	J - Information and communication	-3.3	2.5	0.5	2.4	-4.6
	K - Financial and insurance activities	23.0	4.2	41.9	64.4	19.0
	L - Real estate activities	95.1	121.2	118.2	153.3	143.8
	M - Professional, scientific and technical activities	5.1	4.4	3.0	4.7	5.7
	N - Administrative and support service activities	0.2	41.3	15.7	24.3	21.9
	O - Public administration, defence, compuls.soc.security	0.9	1.6	2.2	2.1	1.9
	P - Education	0.1	0.2	0.0	0.3	0.8
	Q - Human health and social work activities	0.7	0.9	0.8	2.7	1.3
	R - Arts, entertainment and recreation	0.3	0.6	0.0	.	0.1
	S - Other service activities	0.9	1.2	0.4	-1.4	3.9
	Other not elsewhere classified activities (A-U)	12.7	6.2	1.4	1.4	-4.3
FDI inward stock	Total by activities	2524.3	2816.4	2961.4	3254.4	3442.9
	A - Agriculture, forestry and fishing	5.0	5.4	5.6	6.4	8.0
	B - Mining and quarrying	138.6	123.6	153.0	116.7	94.8
	C - Manufacturing	346.3	354.2	273.2	232.4	224.7
	D - Electricity, gas, steam, air conditioning supply	104.9	167.9	174.8	184.9	184.7
	E - Water supply, sewerage, waste manag., remediation	2.6	4.7	7.4	9.1	9.7
	F - Construction	117.8	131.8	111.0	201.2	229.9
	G - Wholesale, retail trade, repair of motor vehicles etc.	50.3	61.8	72.5	83.1	94.9
	H - Transportation and storage	3.3	4.1	5.0	5.4	6.3
	I - Accommodation and food service activities	0.9	1.2	1.3	1.3	2.1
	J - Information and communication	149.8	151.8	152.3	149.6	144.3
	K - Financial and insurance activities	284.6	284.3	327.7	392.4	400.1
	L - Real estate activities	433.4	554.5	673.1	826.4	970.2
	M - Professional, scientific and technical activities	16.5	20.9	23.9	28.5	35.5
	N - Administrative and support service activities	1.1	70.3	95.9	126.4	143.8
	O - Public administration, defence, compuls.soc.security	2.2	3.8	6.0	8.1	9.9
	P - Education	0.5	0.7	0.7	1.0	1.8
	Q - Human health and social work activities	1.1	1.9	2.7	5.4	6.7
	R - Arts, entertainment and recreation	0.4	1.0	1.0	1.0	1.1
	S - Other service activities	1.6	2.7	3.1	2.5	6.4
	Other not elsewhere classified activities (A-U)	863.5	869.8	871.1	872.6	868.0

Table 3: Kosovo FDI by activities (based on: wiw.databases, 2017)

4.3 Kosovo FDI by Partners

Table 4 gives an overview of the most important figures for inflows and inward stock by country. A noteworthy observation, is the dropping share in the overall inflows from EU-28. The EU area's portion went from 78.9% (2007) to 10% (2016).

Indeed, inflows from EU countries have generally declined or for certain partners (Netherlands, Slovenia and Croatia) even turned negative last year. Switzerland has been the source of the highest inflows for the last three consecutive years. In 2016, Swiss inflows accounted for 28.6% of total inflows (61.8 EUR mn) and nearly three times higher than inflows from EU-28. In terms of inflows, Switzerland is followed by Turkey (44.4 EUR mn), Albania (28.6 EUR mn) and Germany (25.7 EUR mn). Switzerland and Turkey make up almost half of total inflows.

When it comes to FDI inward stock, Turkey leads the table (411.3 EUR mn) followed by Germany (318.8 EUR mn) and Switzerland (302.3 EUR mn). Inward stock originating from EU-28 make up 32% of overall inward stock, which proves that the EU still is the most important investor in terms of value, despite declining inflows. For the countries however, the steady growth of inward stock in combination with the positive correlation to the inflows demonstrates Turkey, Switzerland and Germany being the most important FDI origins for Kosovo.

Turkey has historic ties to Kosovo and has played a major role for the development of infrastructure, such as the international airport in Prishtina and the construction of the highway network. Switzerland and Germany are the destinations of the largest share of latest generation emigrants from Kosovo and hence have very close ties to their country of origin. Foreign investment in Kosovo are heavily inward oriented making it a location where investment is directed to rather than a country that originates for investment abroad. Both features have been positive throughout records and generally growing, even though inflows have unveiled to have large fluctuations especially at times of increased political instability.

In EUR mn											
Direction	Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
FDI inflow	WORLD	440.7	366.5	287.4	368.5	384.4	229.1	280.2	151.2	308.8	215.9
	EU-28	348.1	216.5	192.5	222.4	198.7	81.5	89.8	38.5	100.3	21.6
	Albania	3.4	21.9	23.3	20.3	11.2	4.7	19.3	20.4	40.1	28.6
	Austria	35.4	51.3	15.5	21.1	19.6	0.4	10.7	30.3	33.5	9.9
	Bosnia and Herzegovina	0.2	0.7	0.5	0.8	0.1	0.0	0.2	0.3	0.8	1.2
	Canada	0.6	0.2	0.3	0.8	0.5	1.2	1.2	0.9	1.1	2.5
	Croatia	5.8	0.7	0.7	1.8	2.9	0.4	1.3	1.1	0.1	-1.7
	France	8.6	3.5	6.0	3.8	0.2	6.3	3.8	3.3	3.2	2.8
	Germany	48.1	44.0	75.2	91.5	66.6	49.5	21.7	29.4	45.3	25.7
	Italy	5.5	0.1	6.0	6.6	1.7	4.4	8.7	3.3	5.7	1.9
	Macedonia	0.4	2.0	1.5	1.8	5.8	1.2	4.6	3.2	0.1	3.2
	Netherlands	41.2	25.9	23.1	17.2	4.7	-25.6	-0.1	-7.8	-36.4	-28.4
	Norway	0.6	0.1	2.5	3.3	2.5	2.9	4.7	5.9	2.9	3.4
	Slovakia	0.0	0.2	0.1	0.0	0.0	.	0.2	0.1	0.1	0.8
	Slovenia	56.2	44.3	50.8	34.0	16.2	9.3	7.0	-9.4	5.6	-4.5
	Switzerland	9.7	32.1	22.7	35.1	30.9	43.8	41.7	38.2	72.9	61.8
	Turkey	5.4	23.8	14.5	4.9	34.7	65.6	88.6	20.0	55.4	44.4
	United Arab Emirates	.	0.1	0.7	8.7	6.5	0.8	-0.8	1.3	1.4	3.5
	United Kingdom	116.2	36.6	6.2	38.9	80.1	14.3	10.7	-39.5	26.6	13.6
	United States	8.8	4.8	11.8	12.6	14.3	10.8	12.7	14.7	25.0	22.6
FDI inward stock	WORLD	.	.	.	.	.	2524.3	2816.4	2961.4	3254.4	3442.9
	EU-28	.	.	.	.	.	847.1	960.4	1001.2	1100.7	1102.0
	Albania	.	.	.	.	.	58.0	77.4	99.5	141.6	161.6
	Austria	.	.	.	.	.	112.8	119.7	149.8	183.4	186.2
	Belgium	.	.	.	.	.	6.1	9.9	12.8	16.1	17.4
	Bulgaria	.	.	.	.	.	11.3	17.1	31.6	33.2	33.6
	France	.	.	.	.	.	7.6	11.4	15.0	17.3	20.1
	Germany	.	.	.	.	.	201.1	223.8	253.5	299.5	318.8
	Italy	.	.	.	.	.	4.9	13.6	16.9	22.6	24.4
	Macedonia	.	.	.	.	.	15.5	20.1	24.5	22.2	21.2
	Netherlands	.	.	.	.	.	169.3	190.8	187.8	150.5	99.1
	Norway	.	.	.	.	.	5.4	10.1	16.1	18.9	22.1
	Serbia	.	.	.	.	.	5.8	11.9	14.3	15.1	14.5
	Slovenia	.	.	.	.	.	225.0	228.4	216.7	222.3	216.9
	Sweden	.	.	.	.	.	5.4	11.5	17.3	26.1	36.9
	Switzerland	.	.	.	.	.	126.6	160.9	178.6	239.5	302.3
	Turkey	.	.	.	.	.	173.7	262.6	291.4	348.8	411.3
	United Arab Emirates	.	.	.	.	.	39.5	36.1	37.4	38.9	42.5
	United Kingdom	.	.	.	.	.	69.0	78.1	37.9	64.5	82.0
	United States	.	.	.	.	.	40.9	54.4	69.1	89.1	112.9

Table 4: Kosovo FDI by country (based on: wiiw.databases, 2017)

5 Analysis of Environmental Factors

Geographically rather closely located to Switzerland yet a very different environment for business is found in Kosovo. The following chapter aims to discuss some of the environmental factors relevant to foreign investment.

5.1 Economic and Business Factors

The economy of Kosovo has been steadily growing since the year 2000. The GDP was worth 6.65 USD bn in 2016 with a 3.4% growth compared to the previous year. The GDP growth is above the Euro zone and the countries in the region. Robust domestic consumption drove growth, aided by investment, mostly private and including FDI from the diaspora (World Bank Group, 2017). Kosovo's economy has grown steadily and was not hit by the financial crisis due to non-integration of international financial markets. With a nominal GDP per Capita of around 3'244 Euro, Kosovo is the third poorest country in Europe (Swiss Embassy in Kosovo, 2017).

The GDP trend closely follows the changes of the Swiss GDP, however at a much lower dimension. Swiss GDP stood at 659.83 USD bn in 2016, which makes the Kosovan GDP roughly 100 times smaller than the Swiss.

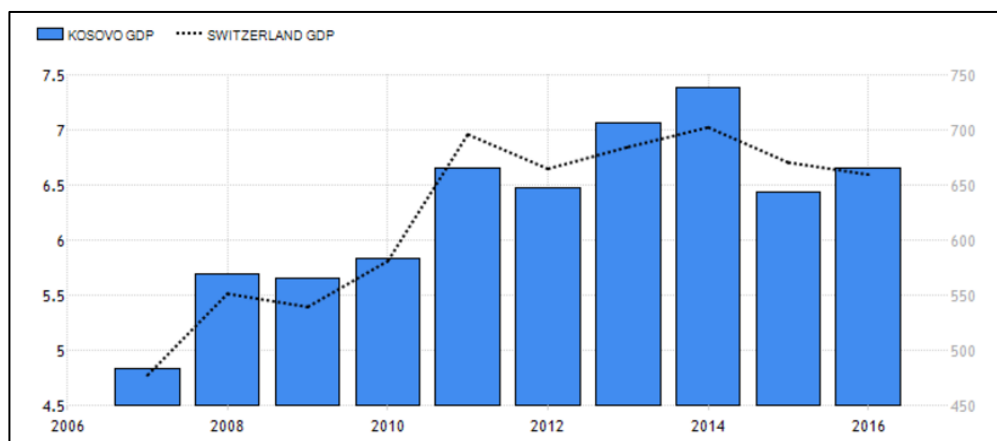


Figure 2: Kosovo and Switzerland GDP (source: Trading Economics, 2017)

The value of the GDP is not only low compared to Switzerland but also within the region. Despite having the most stable and highest GDP growth in the region, Kosovo still has the second lowest value of economy as illustrated in Figure 3.

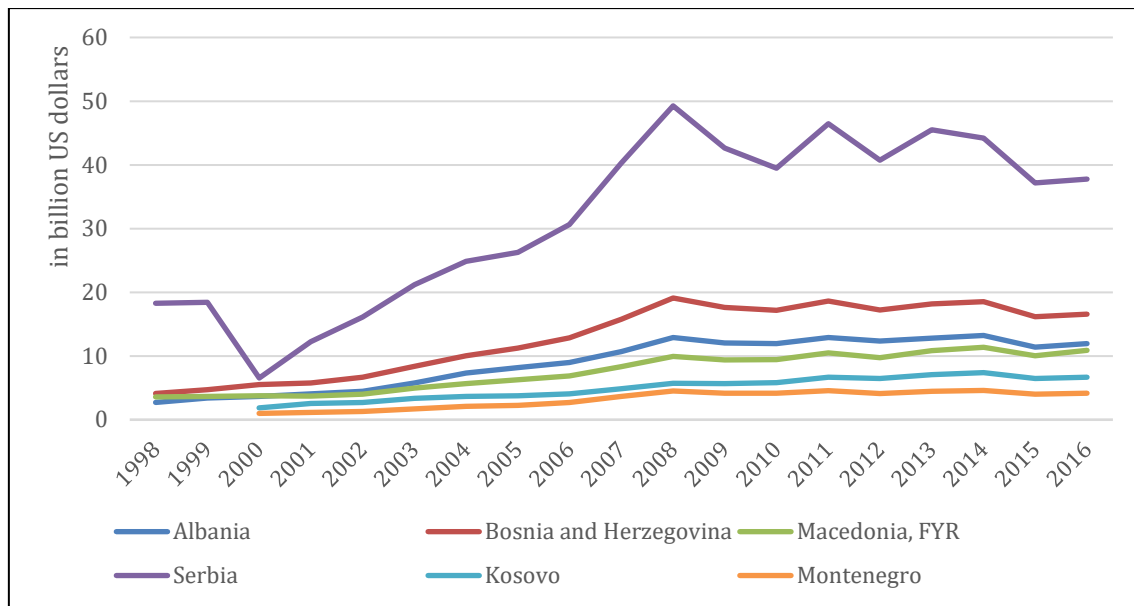


Figure 3: Regional GDP Comparison (based on: data.worldbank.org, 2017)

Complete figures about the latest economic indicators of Kosovo are presented in the appendix (see appendix 2.1).

The Yugoslav Dinar was the legal currency in Kosovo but before and after the war, the population lost confidence in the dinar, which went through high fluctuation. The German Mark was widely used for transactions and savings already and was present due to large cash circulations originating from remittances. When the question concerning a monetary framework arose, UNMIK legitimized the use of the German Mark as well as other currencies. In January 2002, the Euro was unilaterally adopted as the legal tender. Since Kosovo does not belong to the Euro zone, it does not participate in the single currency mechanisms set up by the European Central Bank and consequently cannot issue any Euro. This implies, first that the Central Banking of Kosovo is not an issuing central bank and, secondly, that it has not in hand all the traditional instruments to perform an extensive monetary policy (Svetchine, 2007). Monetary policies usually aim at four main goals: promoting price stability, protection of the national currency, monitoring banks' liquidity and enhancing financial stability. In Kosovo, the central bank does not have to take care of the first two goals, since they are transferred to the European Central Bank. Consequently, thanks to the euroization², Kosovo profits from the monetary stability of the Euro zone. The Central Bank of Kosovo cannot be a lender of last resort but has a set of measures to monitor the liquidity of banks. As far as monetary policy is concerned, financial stability through licensing, regulations, supervisory but also policy advocacy, is the main goal of the Central Bank of Kosovo (Svetchine, 2007).

² Derives from the word "dollarization" and refers to the case when a country decides to abandon its own currency and to substitute it with a foreign currency (Global Economy, n.d.)

5.1.1 Kosovan Market

Kosovo's private sector is characterized by low capital-intensive SME. Of all registered businesses in 2016, 96% had less than 5 employees and 3% of the registered businesses had less than 10 employees. Industry and construction account for 28% of the GDP, while the service sector accounts for 57%. The average wage in Kosovo was 453 Euro per month by the end of 2016 (Trading Economics, 2017). In 2011, 29% of the population lived below the poverty line, while 10% lived in extreme poverty (Swiss Embassy in Kosovo, 2017).

Gartner identified Kosovo as one out of 26 notable countries in Europe, Middle East and Africa that have potential as offshore/nearshore service locations or are established locations, apart from tier 1 and tier 2 emerging countries. To qualify for this, Gartner considered emerging nations which have either begun to establish an environment for attracting companies that consider to invest in lower-cost countries or already serve as locations for external service providers and begun to sell services beyond their home market. However, other countries on the list within close proximity include Croatia, Greece, Serbia and Macedonia, in addition to the tier 1 and 2 countries Bulgaria and Romania (Marriott, Tramacere, & Matson, 2014). The fact that so many countries within the same region are either classified as emerging locations or show potential for offshore/nearshore service provision will potentially add to increased competition for attracting companies that operate in such activities.

5.1.2 Business Environment

Over the past years, Kosovo has established policies to improve its business environment including de-bureaucratization of institutions. A major progress was achieved in 2014 with the establishment of one-stop shops for business registry in major municipalities, which made starting a business much easier as company founders were not required any longer to go through multiple institutions (doingbusiness.org, 2017). The process for business registry also only takes 3 steps and can be completed within a week. Bureaucracy harms businesses since time is wasted unnecessarily (Gërxhaliu, 2017). Legislative actions from the last year focused on digitalizing business process and online data management, which particularly aids business by easing tax transaction³ and customs efficiency⁴. This has helped to improve its performance on the "Ease of Doing Business Rank".

³ Paying Taxes: Kosovo made paying taxes easier by introducing an online system for filing and paying VAT and social security contributions, and it made paying taxes less costly by allowing more types of expenses to be deducted for the calculation of corporate income tax (doingbusiness.org, 2017).

⁴ Trading across Borders: Kosovo reduced the time and cost of documentary compliance and the time of border compliance for exporting by improving its automated customs data management system, streamlining customs clearance processes and implementing an Albania-Kosovo Transit Corridor (doingbusiness.org, 2017).

A good ranking for ease of doing business does not directly support the country in improving its economic performance since the effects will take a long time to be felt, but it potentially makes foreign investors aware of the country as a possible business location and it helps to create a positive image (Butscher & Byci-Lleshi, 2017).

Despite some good efforts to create a more favorable business environment, which in the end would help to attract foreign investors, Kosovo has not yet accomplished to outperform its neighboring countries. The region is led by Macedonia in terms of ease of doing business, which is the only country in the region to rank even higher overall than Switzerland (rank: 31).

	<i>Macedonia, FYR</i>	<i>Serbia</i>	<i>Montenegro</i>	<i>Albania</i>	<i>Kosovo</i>	<i>Bosnia and Herzegovina</i>
<i>Starting a Business</i>	4	47	58	46	13	174
<i>Dealing with Construction Permits</i>	11	36	93	106	129	170
<i>Getting Electricity</i>	29	92	167	156	114	123
<i>Registering Property</i>	48	56	78	106	33	99
<i>Getting Credit</i>	16	44	7	44	20	44
<i>Protecting Minority Investors</i>	13	70	42	19	63	81
<i>Paying Taxes</i>	9	78	57	97	43	133
<i>Trading across Borders</i>	27	23	43	24	51	36
<i>Enforcing Contracts</i>	36	61	41	116	44	64
<i>Resolving Insolvency</i>	32	47	40	43	163	41
<i>Ease of Doing Business</i>	10	47	51	58	60	81

Table 5: Ease of Doing Business - Regional comparison (based on: doingbusiness.org, 2017)

Unfortunately, Kosovo is not yet considered by the “Global Competitiveness Index”, where Macedonia (rank: 68) leads the region before Albania (rank: 80) and Montenegro (rank: 82) (WEF, 2017).

Corporate income tax is at 10% in Kosovo. It belongs among the lowest in Europe but also within the region. There is a 10% import tax and no export tax on goods leaving the country. Some imported goods however, are exempted from duties (KIESA, 2016). Kosovo has signed a number of double tax agreements with other states, including with Switzerland only in May 2017 (Federal Department of Finance, 2017).

Electricity supply in Kosovo is not only expensive (Lichtenhahn, 2017) but also insufficient to meet present demand, and its unreliability imposes significant costs on both large and small businesses, which is a deterrent to investment and job creation. Unreliability of electricity supply represents the single largest obstacle to attracting high-quality FDI to Kosovo. The frequent power outages are considered among the most important weaknesses to private companies and a major obstacle to day-to-day operations (World Bank Group, 2017). The energy sector is therefore among the prioritized sectors of the government. Particularly clean and renewable energy promotion have become of great importance in accordance with the targets of the European Commission (European Commission, 2016) and the World Bank (World Bank Group, 2017).

5.1.3 Trade

Kosovo has continuously struggled to balance its current account. The country has an increasing trade deficit and attempts to turn it have not shown any success. As already stated, the economic growth is largely driven by consumption and hence affects the trade balance since a large portion of the consumption demand is met via imports. Table 6 illustrates the trade figures of Kosovo. Growing imports faces rather stagnated under proportional exports, the result is a steadily increasing trade deficit. Kosovo shows a declining trend for its export share to EU-28 countries and at the same time increased the overall export volume. This can be an indication that Kosovo found new export markets. Trade deficit is a sign of a non-self-sufficient economy or that the economy lacks the means to efficiently provide goods and services.

	2011	2012	2013	2014	2015	2016 ⁵
<i>Value of imports (EUR mn)</i>	2437	2462	2421	2538	2635	2790
<i>Value of exports (EUR mn)</i>	306	267	272	325	325	310
<i>Trade balance (EUR mn)</i>	-2131	-2195	-2148	-2214	-2309	-2480
<i>Share of exports to EU-28 (%)</i>	45.5	41.1	43.5	30.2	32.6	22.6
<i>Share of imports from EU-28 (%)</i>	41.5	42.6	44.7	42.6	42.2	43.1

Table 6: Kosovo Trade Figures (based on: European Commission, 2016b)

⁵ The 2016 trade data was obtained from Swiss Embassy in Kosovo (2017).

The largest export partners for 2016 were: Albania (42 EUR mn), Serbia (41 EUR mn), Macedonia (39 EUR mn), Switzerland (17 EUR mn), Montenegro and Germany (14 EUR mn) (Swiss Embassy in Kosovo, 2017).

The largest import partners for 2016 were: Serbia (388 EUR mn), Germany (343 EUR mn), Turkey (289 EUR mn), China (258 EUR mn) and Italy (203 EUR mn). In 2016, imports from Switzerland amounted 22 EUR mn, which is a relatively low volume but yet a positive trade balance for Switzerland (Swiss Embassy in Kosovo, 2017). Appendix 2.2 presents a full break down of Swiss-Kosovan trade, according to the Swiss customs statistics, which even values Swiss exports to Kosovo at 29 EUR mn for 2016. Kosovan imports from Switzerland focus on: pharmaceutical products, non-electric machines and vehicles. Exports to Switzerland are mainly: agricultural goods, plastic, non-precious metals and furniture.

Kosovo is part of the Central European Free Trade Agreement (CEFTA) that gives access to almost 30 million consumers (see chapter 5.2.4). Kosovo further has autonomous trade preferences in the EU. These preferences, which will provisionally end in 2020, allow nearly all exports to enter the EU without customs duties or limits on quantities (European Commission, 2017). Kosovo has similar preferences with the US, Norway, Japan and Switzerland (KIESA, 2016).

5.2 Political and Legal Factors

Kosovo is a unicameral parliamentary republic with 38 administrative divisions (municipalities) and a constitution that was last amended in 2016. The executive branch comprises the chief of state; president Hashim Thaçi (since April 2016) who serves a 5-year term and is eligible for a second term, the head of government (the prime minister role is currently vacant) and the cabinet. All of which have to be directly or indirectly elected by the Assembly. The Assembly (“Kuvendi”) forms the legislative branch. It holds 120 seats; 100 members are directly elected through the proportional representation and 20 seats are reserved for ethnic minorities – 10 seats for Serbs and 10 for other minorities. Assembly member serve a 4-year term. Last election was held on June 11, 2017 (see chapter 5.2.1).

Kosovo has a civil law legal system. The highest courts are the Supreme Court and the Constitutional Court. Subordinate courts are the Court of Appeals and the Basic Court. In 2015 the Assembly approved the establishment of the Kosovo Relocated Specialist Judicial Institution, which is to be located at The Hague and will operate the prosecution of war crimes by members of the KLA during the Kosovan-Serbian war (CIA, 2017).

The sheer fact that the Kosovan government consists of 19 ministries and many more central, local and international institutions (RKS Government, 2017) implies a complex governance system and large public sector. The government is the largest employer in the economy. The public sector accounted for 32.6% of total employment for persons aged 20-62 in 2015 (European Commission, 2016b). Wages in the public sector have risen to double the average private sector wage. As a result, public sector jobs are most desirable, which leads into a loss of competitiveness (European Commission, 2016b). Public sector jobs have an image of earning a lot while doing nothing and are very popular among the youth, who will prioritize these jobs over the private sector (Gërxhaliu, 2017).

As already indicated, the political situation is largely responsible for the decline of FDI inflows and unfavorable economic situation. Good political attempts and initiatives in the recent past have yet failed to outweigh the negative facets of the political landscape.

In 2010, the transformation index started to include Kosovo in its assessment of developing countries (BTI, 2016). The transformation index consists of 3 areas with scores from 1 to 10, 10 being best. One of these areas is the “Democracy Status”, which is illustrated in Table 7 and presents the scores of every other year since 2010. Since Kosovo declared independence only in 2008, it is surely difficult to assess as there are no reference years that allow comparative progress. However, the qualitative report sufficiently supports and explains the score allocation.

What stands out is that the overall score of the democracy status has gone down from a score of 7 and then stabilized between 6.7 and 6.6. The reason for the decline was the lower performance in “free and fair elections” compared to the base year following the election fraud and irregularities during the 2010 elections. The electoral conduct however, has significantly improved since then so that in 2014, for the first time, the results were not contested and no accusations of fraudulent elections were made. The successful election was only possible due to a very large number of observers. 30'000 monitors were engaged in the election. The municipal elections however, are regularly opposed by the Kosovan Serb ethnic minority, who are situated primarily in the north of the country and yet do not recognize the independence of Kosovo. Moreover, in 2014 the municipal elections were boycotted in the northern areas when extremists raided polling stations and destroyed ballot boxes (Bertelsmann Stiftung, 2016).

The lowest scoring criteria is “rule of law” which has not improved in any of the four conducted assessments. This criterion is further discussed in the subchapter (see chapter 5.2.2). The only score that has improved compared to the base year is “state identity”. This criterion describes the inclusion of the population and has slightly improved thanks to constitutional assurance of

assembly seats for the six ethnic minorities and thanks to the 2013 Brussels agreement between Kosovo and Serbia, which was the first step towards normalization of relations (Bertelsmann Stiftung, 2016).

<i>Criteria</i>	<i>2010</i>	<i>2012</i>	<i>2014</i>	<i>2016</i>
Party system	7	7	7	7
Interest groups	6	6	6	6
Approval of democracy	7	7	7	7
Social capital	5	5	5	5
Political and Social Integration	6.3	6.3	6.3	6.3
Performance of democr. institutions	6	6	6	6
Commitment to democr. institutions	8	7	7	7
Stability of Democr. Institutions	7	6.5	6.5	6.5
Separation of powers	6	6	6	6
Independent judiciary	5	5	5	5
Prosecution of office abuse	5	5	5	5
Civil rights	6	6	6	6
Rule of Law	5.5	5.5	5.5	5.5
Free and fair elections	9	7	7	7
Effective power to govern	8	8	7	7
Association / assembly rights	9	9	9	9
Freedom of expression	7	6	6	6
Political Participation	8.3	7.5	7.3	7.3
Monopoly on the use of force	7	7	6	7
State identity	6	7	7	7
No interference of rel. dogmas	9	9	9	9
Basic administration	9	8	8	8
Stateness	7.8	7.8	7.5	7.8
Democracy Status	7	6.7	6.6	6.7

Table 7: Historic Democracy Status (based on: BTI, 2016)

The overall score allows Kosovo to rank 44th out of 129 countries considered in the index (BTI, 2016). For all criteria of the democracy status however, Kosovo is still performing below the regional average of the Western Balkans (see Figure 4). The largest deviance from the mean score is the criterion “rule of law”.

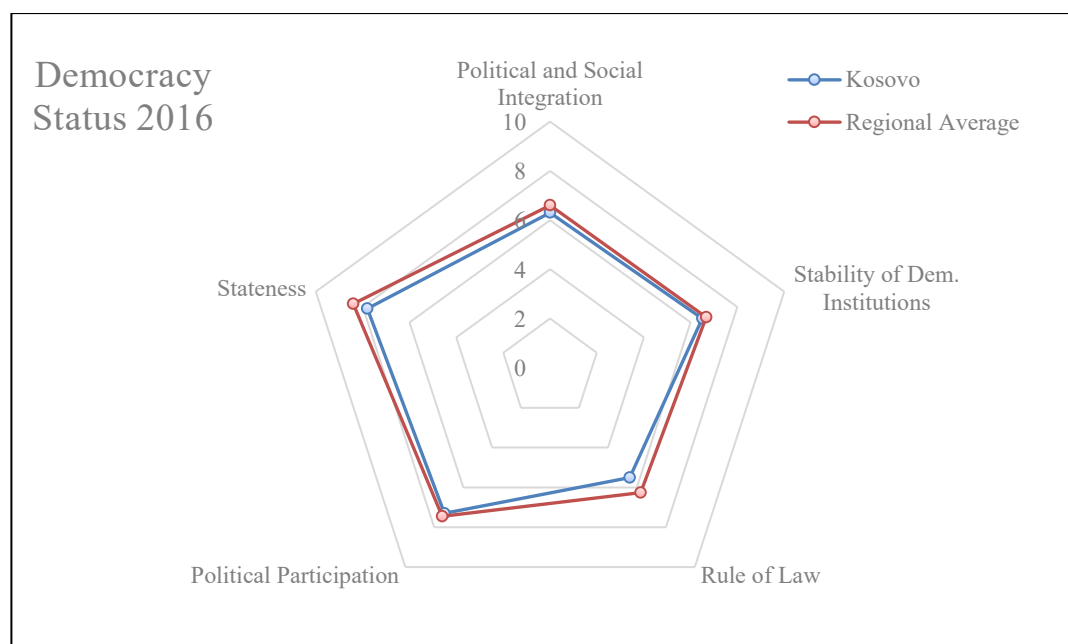


Figure 4: Democracy Status 2016 (based on: BTI, 2016)

5.2.1 Political Instability

The uncertainty of the political scene has often been subject to international media coverage and significantly influences the outside perspective of the young country. The Swiss embassy stated in its latest report that the political situation is unstable (Swiss Embassy in Kosovo, 2017) other sources label the situation as a political revolt (SRF, 2016) or even being on the brink of a political crisis (Euractiv, 2017).

To bring back normalization after the war in Kosovo, the international community supported the political leaders who could guarantee a certain level of control and among those were high profile individuals of the KLA (Butscher & Byci-Lleshi, 2017), who yet control the majority of the government and assembly. After years of untenable promises, the wide-reaching existence of organized crime, corruption charges against politicians that have rarely led to convictions, extensive nepotism and economic uncertainty (Bertelsmann Stiftung, 2016), the situation has led to increased doubt among the population. The Brussels Agreement in 2013 aimed to normalize the situation between Kosovo and Serbia and was a first major step in a dialog as for the first time, the Serbian government recognized the Kosovan public institutions within the whole territory, however still not the state's independence. In exchange, the Kosovan government allowed the Serbian communities in Kosovo to form an association with ties to Serbia (SRF, 2016). The agreement was pushed by the EU as both countries are potential candidates for EU accession. In connection with other concessions, an uproar from the Kosovan population emerged, which was not further pursued by most parties although the concessions conflicted with the constitution. Attempts from assembly members and petitions to start dialogues about

retracting the agreement failed and the sessions were then interrupted by the opposition party with tear gas. What followed was a period of demonstrations that peaked in a series of more tear gas usage in 2016 to prevent the assembly from electing Hashim Thaçi (former KLA Leader) as president (SRF, 2016). The attempts failed and Thaçi was elected as chief of state. The dialogue with Serbia concerning the implementation of the agreement however is stuck for now.

The opposition party “Vetëvendosje” (VV) (which stands for “Self-determination”), is a left-nationalist populist party that has widely gained followers among the elderly and young generations. It opposes the political elite of former KLA commanders that has claimed power after the war and never gave away. VV has accused many of which of corruption. VV does not want to make concessions with Serbia about Kosovo’s territorial integrity and the state autonomy. It further wants to establish social structures and develop the economy. VV has achieved major followership especially among academics and the diaspora. Roughly half of Albanians in Switzerland sympathize with the movement. Albin Kurti (Leading figure of VV and Assembly member) thinks that the reason for such a large support from abroad is because Albanians in Switzerland know how a government can and should function (SRF, 2016).



Figure 5: Teargas in Kosovan Parliament (source: LA Times, 2015)

In May 2017, the government stepped back after the prime minister Isa Mustafa had lost a no-confidence vote on May 10, 2017 and the parliament was dissolved. Early elections were held on June 11, 2017, where the coalition led by the president’s party PDK (Democratic Party of Kosovo) won 39 out of the 100 seats. Unexpectedly, VV came second as the new biggest single party in Kosovo securing 32 seats, and with this more than doubled their share (Euractiv, 2017). Prior to

the elections, the Swiss Embassy had practically ruled out VV being represented in the parliament not to speak about gaining major share. VV is the only party that favors a different economic policy with more state intervention (Swiss Embassy in Kosovo, 2017).

A rise of a political opposition is not necessarily a bad sign for the future of the country. The shift of powers may put additional pressure to the conventional parties to prove their legitimacy with successes. For many years, the same parties have led the country without presenting major political or economic progress, any change lets the people hope. It only becomes problematic if the new assembly fails to establish a new government within a reasonable timeframe (Butscher & Byci-Lleshi, 2017). The assembly however failed to elect a speaker on 3 August 2017, which casts a doubt if the winning coalition can gather enough votes to confirm their candidates. Not being able to gather enough votes means that a prime minister is unlikely to be elected, which in turns means that a cabinet cannot be proposed. If neither of the other two parties supports the coalition, it means that Kosovo could go into new elections (Euractiv, 2017), causing a governmental stand still.

A stable political landscape is crucial for foreign investors, especially for large MNEs. A functioning parliament and government give investors confidence and security about their business activities in the host country. Radical changes can cause agreements with investors to fail and retrieve. In the example of Kosovo, VV is against the privatization processes and might potentially discourage foreign investors from acquiring state-owned entities.

5.2.2 Rule of Law

As the Democracy Status 2016 (see chapter 5.2) points out, rule of law in Kosovo is the lowest performing of all criteria. The Worldwide Governance Indicators 2015⁶ ranked “Rule of Law” the second lowest dimension, slightly before “Political Stability and Absence of Violence/Terrorism” (World Bank Group, 2017b). Figure 6 puts Kosovo in the regional comparison where it scores lowest, just after Albania.

⁶ WGI data for 2016 will only be available after 22 September 2017



Figure 6: Control of Corruption - WGI 2013 - 2015 (source: World Bank Group, 2017b)

To support the rule of law in Kosovo, the European Union deployed a mission of police and judicial personnel after the declaration of independence in 2008; The European Union Rule of Law Mission Kosovo (EULEX) (Bertelsmann Stiftung, 2016). EULEX' mission is to assist judicial authorities and law enforcement agencies in their progress towards sustainability and accountability and in further developing and strengthening an independent multi-ethnic justice system and multi-ethnic police and custom services, ensuring that these institutions are free from political interference and adhering to internationally recognized standards and European best practices. The mandate is set until June 14, 2018 with a personnel strength of 800 staff member and operates within the framework of UNSC Resolution 1244. The mission is the largest civilian mission launched under the Common Security and Defense Policy of the EU. The mission has significantly downsized its operations since its deployment in 2008 in order to allow a step-by-step transition to the domestic authorities. Nevertheless, it continues to operate via its two main objectives: "Strengthening" and "Executive". The strengthening objective consists of mentoring, monitoring and advising activities. These activities provide support to rule of law and other related institutions. The executive objective ensures rule of law services and deals with sensitive cases. In its current mandate, EULEX does not accept any new cases as the transition process is well advanced, except for the northern, ethnic-Serb majority parts of the country where EULEX will remain in charge of judicial proceedings until the Belgrade-Prishtina dialogue has brought a solution (EULEX, 2016).

As supportive the EULEX institution intends to be, it was subject to massive criticism in the past. EULEX' practices and management have widely been questioned by the international community and the institution is rather unpopular among the civil population. Anonymous letters in July 2010 led to the prosecution and temporarily arrest of Hashim Rexhepi, the then governor of the Central Bank of Kosovo. The poor evidence was accepted outside the court and had not been shown to the defense. Voices raised concerns over the unfair trail being a political cover-up (The Guardian, 2011).

EULEX furthermore is said to not go after the political elite. Despite announcing that "big fish" would be caught, high profile politicians have even become adept at using the absence of EULEX investigations as a proof of their cleanliness (The Guardian, 2011).

Moreover, there has also been a series of bribery, corruption and cover-up accusations from insiders and whistleblowers against the mission's top level (The Guardian, 2014) and EULEX judges of sensitive cases (Balkan Insight, 2016). There were however no condemnations due to lack of evidence. Analysts in Prishtina even went as far as saying that corruption and organized crime in the political system has gotten worse since the independence in 2008 (The Guardian, 2014).

The systematic country diagnostic of the World Bank has identified the weak governance and rule of law being a key threat to the economic and social development of Kosovo. Governance and rule of law have become key priorities in the most recent "Country Partnership Framework" between the World Bank Group and Kosovo (World Bank Group, 2017).

5.2.3 Corruption

The fight against corruption has been among the highest ranked priorities of the international community since Kosovo's declaration of independence. It has also gradually become a priority for the government as allegations concerning political corruption have increased. Corruption cases in political and electoral processes are regarded among the greatest challenges for the countries' social and economic development. Political corruption is defined as the manipulation of policies and institutions, as well as manipulation of rules of procedure in the allocation of resources and financing by political decision makers. It finds application in electoral processes, party financing, codes of conduct, declaration of assets, immunity, conflict of interests and lobbying (Martini, 2014).

In 2016, Kosovo scored 36 out of 100 points on the Corruption Perceptions Index, ranking 95th of 176 countries listed. It has slightly improved in comparison with the 3 previous years, where Kosovo scored three consecutive times 33 points. In comparison within the Western Balkans,

Kosovo performed worst and ranks behind Macedonia (90th), Albania (83rd), Bosnia and Herzegovina (83rd), Serbia (72nd) and Montenegro (64th) (Transparency International, 2017).

The Global Corruption Barometer is a global survey on corruption. In the 2016 Europe and Central Asia edition, 1500 citizens of Kosovo were surveyed. Two in three citizens stated that corruption being one of the top problems facing their country, which was the highest percentage answer in the region. 46% of the surveyed, perceive corruption among members of the parliament. Another two in three rate the government “badly” at fighting corruption in the government. However, when asked about whether they or members of their households have made unofficial payments or gifts within the last 12 months when using public services, only 10% said yes, making it the lowest bribery rate in the region (Macedonia: 12%, Montenegro: 16%, Serbia: 22%, Bosnia and Herzegovina: 27%, Albania: 34%) (Pring, 2016).

Political corruption, including government officials and members of the parliament, is perceived as the most common form of corruption. There are indications that this lack of authority/political integrity roots in political parties in Kosovo. They often do not hold themselves to consistent moral standards and fail to represent public interest. They will seek to act in their own best interest, which often is contrary to the public. There is a general perception of parties being agents of creating privileges for their tightly linked supporters. These problems can only be fought through legislative reforms, stringent prosecution and through a change of mindset by transparently adapting and advocating practices (Kosova Democratic Institute, 2016).

Several reforms were achieved in 2013 as the first uniform municipal elections were held without major drawbacks. Different amendments to laws were passed, including, the law on political party financing and the law on conflicts of interest and asset declaration. There were however no development efforts with regard to the code of conduct for members of the government. Despite to progress achieved, the implementation and enforcement of the rules remain a serious problem. Moreover, the low track record of punishment of high-level senior officials involved in corruption or fail to comply with the legal framework support a culture of impunity among officials and institutions (Martini, 2014).

Figure 7 shows the regional percentile ranks for the latest three available years. It clearly went up in 2014 thanks to the anti-corruption actions addressed in 2013 but went down again in 2015 due to lack of consistent implementation and new allegations⁷. With 37 on the percentile rank Kosovo scores lowest in comparison within the region, behind Albania (40), Bosnia and Herzegovina (45) and the other states with greater difference.

⁷ WGI data for 2016 will only be available after 22 September 2017

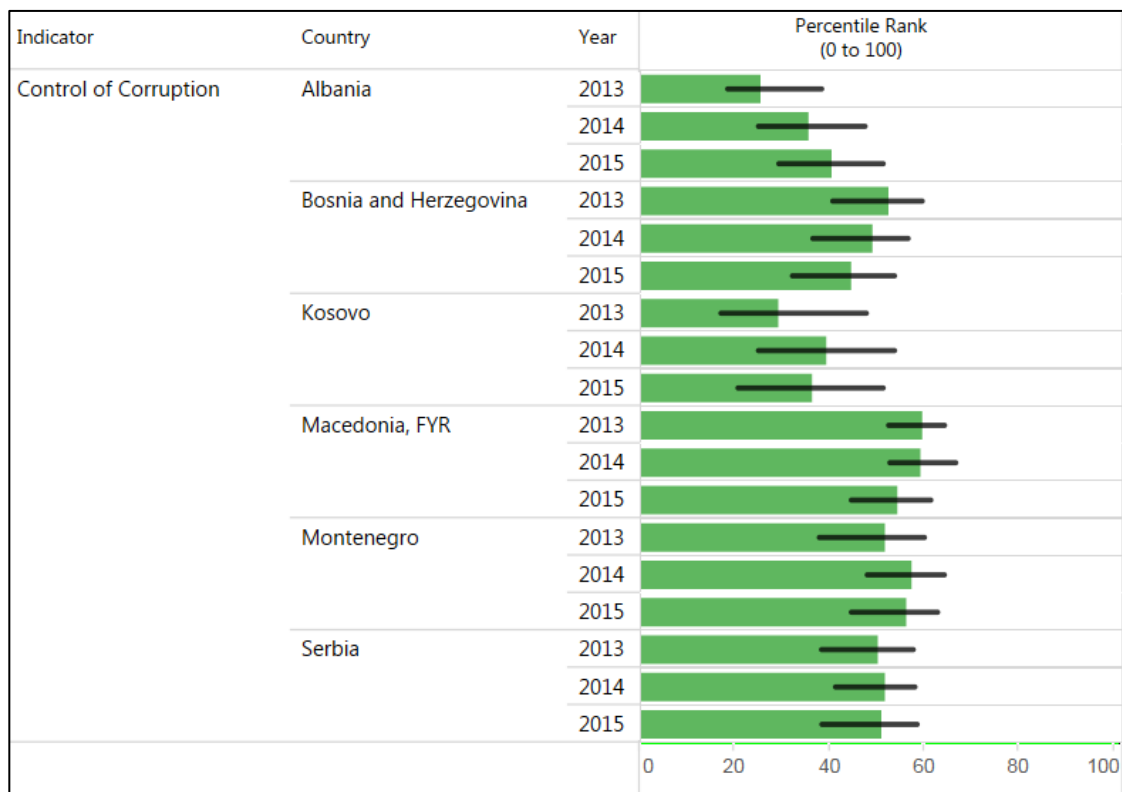


Figure 7: Control of Corruption - WGI 2013 - 2015 (source: World Bank Group, 2017b)

Nevertheless, as this data is publicly available and the net FDI inflow has ever been positive, one can assume that investors are willing to take the risk of corruption. Especially, investors who operate in multiple emerging countries include corruption in their calculations as an integral element of their business (Butscher & Byci-Lleshi, 2017). A Swiss investor on the other hand, who opened up a hotel in Kosovo in 2009 had waited for 14 months to receive construction permits because he refused to bribe officials (Wormser, 2017).

Corruption is often expected in complex and slow environments and aims to accelerate processes, which is often in the interest of business people. It becomes particularly harmful if corruption is regarded as a requirement to keep the process going. Kadizes (2014) argues that a changing system or environment is the fertilizer for corruption. Changing system often outpace the capability of citizens and institutions to adapt to the imposed conditions and leaves behind gaps and overlaps, which lead to confusion and the need to ease the system. Kosovo, with an environment that changes at a very fast pace, definitely falls into the category of a changing systems. A promising shot at easing the system for businesses, respectively for foreign investors, are the one-stop shops in major municipalities.

5.2.4 Integration

Forging closer ties to Europe is still a priority for the country, as well as the pursuit to attract more investors from Europe. The majority of UN-Member states have recognized the independence of Kosovo but others still have not. The unresolved status question bears obstacles and uncertainties that negatively affect the investment climate (Swiss Embassy in Kosovo, 2017).

Kosovo is regarded a potential candidate for membership in the EU. The EU accession process serves as crucial anchor for the country's democratization and market economy reforms. Along the way, Kosovo has achieved some progress. The most important one being the entry into force of the Stabilization and Association Agreement (SAA) in April 2016 (World Bank Group, 2017).

The SAA aims at establishing a contract based relationship between the EU and Kosovo. It demands for mutual rights and obligations and covers an extensive variety of fields. The SAA emphasizes respect for key democratic principles and core elements of the EU's single market.

The SAA will establish an area that guarantees free trade and the application of European standards, but also in other areas such as competition, state aid and intellectual property. It will further support the Kosovan government at implementing reforms designed to achieve the adoption of European standards. Other provisions cover political dialogue and cooperation in sectors including but not limited to: education, employment, energy supply, environmental questions, justice and home affairs. For the pre-accession assistance, the EU has allocated 645.5 EUR mn to Kosovo for the period 2014-2020 (European Commission, 2016).

Kosovo is a potential EU candidate member but despite the progresses with the EU, particularly through the SAA, the full membership in the EU is more of a distant goal. Furthermore, 5 out of the 28 EU member states do not recognize Kosovo's statehood⁸. The Brussels Agreement was part of the EU facilitating dialogue between Kosovo and Serbia as a means to normalize the bilateral relations and affirms that neither of both will hinder one another on their path to the EU (World Bank Group, 2017).

Under the UNMIK administration in 2006, Kosovo became part of CEFTA. It was founded in 1992 and comprises the central European countries who are non-EU members⁹; Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Moldova, Montenegro and Serbia.

⁸ Greece, Romania, Slovakia, Spain and Cyprus do not recognize the independence, mostly due to internal political reasons (Swiss Embassy in Kosovo, 2017).

⁹ Poland, Hungary, Czech Republic, Slovakia, Slovenia Bulgaria, Romania, and Croatia withdrew upon their accession to the EU.

CEFTA has four priorities (CEFTA, 2017):

- (Trade) Facilitation
- Trade in Service
- Investment
- Transparency

The newly established “Joint Working Group on Investment Policy and Promotion” is currently working on an Investment Report, which aims to present relevant information on current and projected regional investment trends based on statistical data and to promote the CEFTA region as an attractive destination for FDI. The report will serve as an analytical tool for policy makers and will provide stakeholders and the wider business audience with valuable information. The CEFTA Investment Report is to be released and promoted in the region and internationally during 2017 (CEFTA Investment, 2016).

The full access to CEFTA however, was not always guaranteed. After Kosovo declared its independence, the Kosovan authorities changed the customs stamps from *UNMIK Customs* to *Kosovo Customs*. With the new customs stamps, both Serbia and Bosnia immediately seized exports from Kosovo. UNMIK representatives had repeatedly stated that the change of stamps does not violate the Resolution 1244 but both continued to pose obstacles on or fully stop imports from Kosovo. Businesses in Kosovo who maintained export activities to those countries were either subject to custom duties or had to export their goods through another participating CEFTA member for re-export. Both options were tied to additional costs for corporations in Kosovo. A discussion concerning the continuance or termination of Kosovo in CEFTA divided the opinions (Institute for Advanced Studies GAP, 2011). Only in 2011, Serbia and Bosnia recognized the customs stamps and removed barriers on goods originating from Kosovo.

5.3 Sociographic and Cultural Factors

To grasp a better understanding of the business environment in Kosovo, one needs to take societal and cultural components into account. This chapter aims at discussing factors of society and culture relevant to business.

Kosovo has never been research by any of the prominent cultural frameworks such as: Hofstede’s Cultural Dimensions, GLOBE Project, Trompenaars and Hampden-Turner’s Seven Dimensions of Culture, etc., which makes it difficult to objectively investigate the society’s culture. The GLOBE study however gives indications of the cultural belonging through its cluster division. If

Kosovo was to be researched it mostly likely would belong to the Eastern European Cluster¹⁰. This cluster has very distinct societal cultural practices. Societies in this cluster score relatively high on the dimensions of In-Group Collectivism and Power Distance. They maintain close family ties and individuals are proud and loyal towards organizations and families. Unsurprisingly, people of this cluster do not expect even distribution of power among the citizens. Countries in this cluster score comparatively high on Assertiveness. This cluster furthermore scores lowest of all global clusters on the dimension Future Orientation and Performance Orientation. Uncertainty Avoidance also is very low for these societies. While most cluster are male-dominated, this cluster is the most gender egalitarian of all (GLOBE Project, n.d.)

In terms of values, the people belonging to this cluster believe that Performance Orientation and Future Orientation is much more important to their culture, contrasting the practice score. Societies of the Eastern European cluster express a strong desire to reduce Power Distance and Assertiveness (GLOBE Project, n.d.). Figure 8 illustrates the average scores of the group.

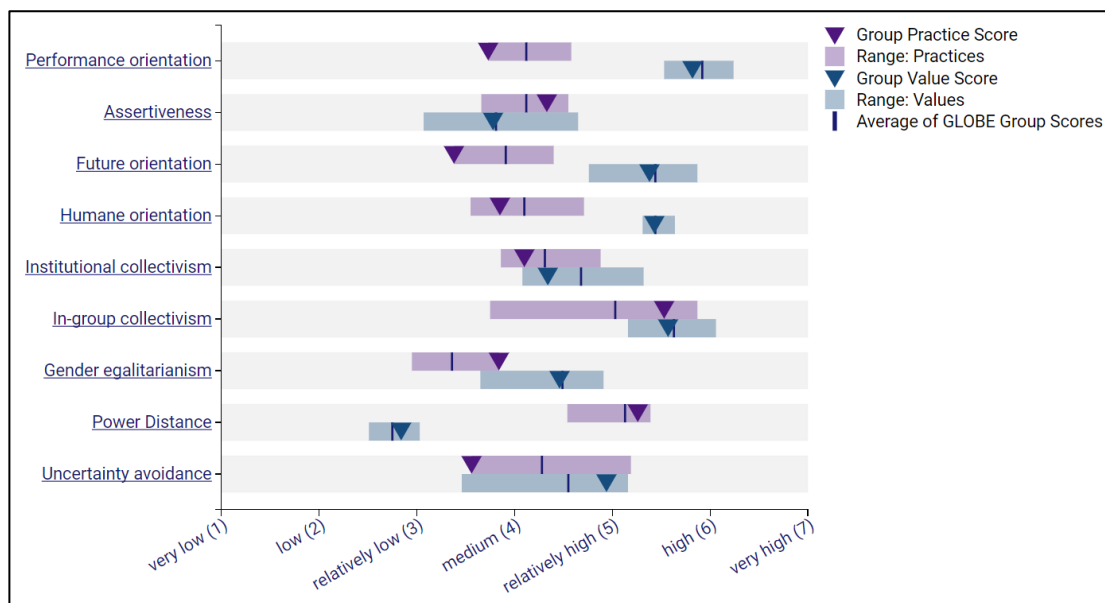


Figure 8: Cultural Practices and Values in the Eastern Europe Group (source: GLOBE Project, n.d.)

A study which researched cross-cultural comparison of business students from Slovenia, Macedonia and Kosovo found supporting evidence (Gender egalitarianism, Uncertainty avoidance, Future orientation) and contrasting evidence (Power Distance, Collectivism) for Kosovo, compared to the characteristics of GLOBE's cluster (Avramaska, 2007). A full transfer

¹⁰ GLOBE's Eastern European Cluster encompasses the following countries: Albania, Georgia, Greece, Hungary, Kazakhstan, Poland, Russia and Slovenia (GLOBE Project, n.d.)

of results can however not be made due to the relatively small sample size and the homogeneity of the sample groups.

Cultural aspects do generally not interfere with business in Kosovo due to its western oriented society. Despite the majority of the country being Muslim, the practice of religion is relatively moderate and does not affect business weeks as for example other Muslim majority countries' practices do.

5.3.1 Demographics

The latest publicly available census is from 2014 and counted 1,804,944 people. More than 207'000 of which lived in the capital city, Prishtina (Kosovo Agency of Statistics, 2017).

Up to 92% of the population identifies as Albanian ethnic. The Serb ethnic group is the largest minority with up to 7% of the population. The 4 other minorities are Ashkali, Bosnians, Roma and Gorani (Bertelsmann Stiftung, 2016). Albanian and Serbian are official languages of the country. Other minority languages used are Bosnian, Turkish and Romani. The main religions are Muslim, Serbian Orthodox and Roman Catholic (CIA, 2017).

Appendix 2.3 contains a list of average population ages of all countries located on the continent of Europe. With 28.7, Kosovo has the lowest median age in all Europe. Which is the reason why official country promotion includes the slogan: "Kosovo: the young europeans" and even won the Best Nation Branding Campaign 2010 in London (RKS - Office of the Prime Minister, 2010).



Figure 9: Nation Branding (source: RKS - Office of the Prime Minister, 2010)

The demographic age distribution shows a high concentration of the population below the age of 40 as seen in Figure 10. The age distribution surely was influenced by the consequences of the armed conflict, when the younger part of today's population were children or infants.

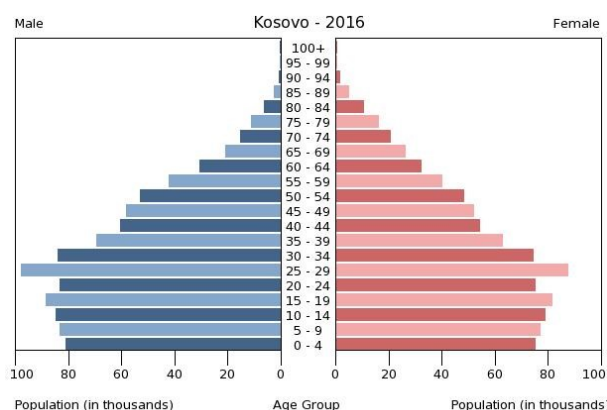


Figure 10: Population Pyramid Kosovo (source: CIA, 2017)

5.3.2 Labor Market and Unemployment

Despite moderate growth, the economy remains very weak and unable to provide the number of jobs needed to absorb the around 30'000 people entering the market every year (Swiss Cooperation Office, 2016). An objective assessment of the labor market is difficult since the shadow economy is estimated to account for 30% of the GDP (Swiss Embassy in Kosovo, 2017). Many people in Kosovo are unofficially employed to evade taxation and 70% of all people employed only have a temporary contract (Swiss Embassy in Kosovo, 2017).

The average monthly labor costs are at 446 EUR, making it the most competitive labor costs in the region. Furthermore, the availability of labor is very high and also social security rates for labor are the lowest in the region, thanks to liberal labor regulations (KIESA, 2016).

Figure 11 shows the characteristics of the labor market in Kosovo according to the EU Commission. 42.8 of the population was active in the economy in 2015, in comparison, Switzerland's share of economically active people is around 70% (BFS, 2017). Two thirds of all people employed work in the private sector. What stands out is the steady decline of employment share in the agricultural, forestry and fisheries sector, despite agricultural potential in the country. The service sector accounts for two thirds of all employment in the private sector. One third of all people employed work in the public sector, which is relatively high compared to the, also quite high, 22% in Switzerland (NZZ, 2017).

Unemployment in Kosovo is the highest in Europe. It was officially at 32.9% in 2015, which is a high burden for the economic development of the country. To add things up, unemployment for 15 to 24-year old is at 52% (Swiss Embassy in Kosovo, 2017). The fight against unemployment, especially youth unemployment, is among the highest economic priorities and is supported by the international community. The problem of unemployment occurs not only due to economic factors

but also due to societal reasons. Nepotism is widely present in recruiting as well, making it more difficult for people without connections to find jobs.

Labour market	Note	2003	2011	2012	2013	2014	2015
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	:	42.5	46.4	47.7	42.8
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	:	29.7	33.0	31.3	29.1
Male employment rate for persons aged 20–64 (%)		:	:	46.6	51.5	48.4	44.9
Female employment rate for persons aged 20–64 (%)		:	:	12.4	14.9	14.5	13.2
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		20.1	:	25.8	30.8	29.8	27.2
Employment by main sectors							
Agriculture, forestry and fisheries (%)		17.3	:	4.6	5.9	2.6	2.3
Industry (%)		15.4	:	19.0	16.8	17.7	18.7
Construction (%)		11.3	:	9.5	11.4	10.9	9.5
Services (%)		56.0	:	65.0	64.1	67.2	68.3
People employed in the public sector as a share of total employment, persons aged 20–64 (%)		:	:	35.0	31.5	31.4s	32.6
People employed in the private sector as a share of total employment, persons aged 20–64 (%)		:	:	65.0	68.5	68.6s	67.4
Unemployment rate: proportion of the labour force that is unemployed (%)		49.7	:	30.9	30.0	35.3	32.9
Male unemployment rate (%)		40.3	:	28.1	26.9	33.1	31.8
Female unemployment rate (%)		71.9	:	40.0	38.8	41.6	36.6

Figure 11: Labor Market Kosovo (source: European Commission, 2016b)

5.3.3 Education Sector

In 2015, Kosovo participated for the first time in the PISA study, where concerns in the education system prove to be true. Kosovo ranked among the three lowest of 72 participating countries. Particularly worrying were the low scores on math, science and reading (Prishtina Insight, 2016).

Rexhaj & Pupovci (2015) state that the higher education sector in Kosovo went from a low access and relatively poor quality of education and research in one public institution, to over proportional access, very poor quality of education and complete lack of research in seven public and more than 20 private higher education institutions within the last decade alone. They argue that the label “university” is handed over far too easily, without the need for an assessment or a business plan. The higher education sector is largely underfunded and has become a political tool, since the management of new higher education institutions is formed by members of the ruling coalition parties. Rexhaj (2016) however, further states that with the appointment of a new minister of education and the new rector at the University of Prishtina in 2014, the future has become more hopeful for education. A series of legal and structural reforms was passed and the “Kosovo Education Strategic Plan 2017 – 2021” came into force, which particularly sets objectives on quality assurance and educational/teaching development (Ministry of Education, Science and Technology, 2016).

The extensive access to higher education at poor quality is indeed a very threatening factor especially for the long-term economic development. Already today, 35% of university graduates do not have the necessary qualification for the labor market (Swiss Embassy in Kosovo, 2017).

Figure 12 illustrates the number of graduates as per field of studies at the largest public university for the academic years 12/13 and 13/14. It shows an overall increase of student numbers and strong domination of social sciences¹¹ compared to relatively low graduates from natural sciences.

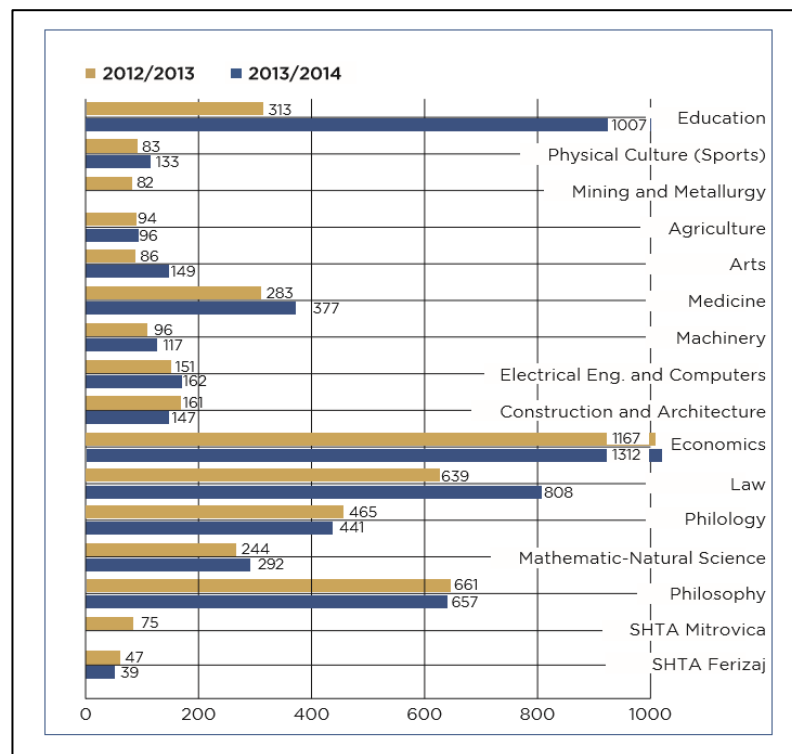


Figure 12: Graduates by field of studies – University of Prishtina (source: KIESA, 2016)

The academization of society is a problem that is frequently addressed (Gërxhaliu, 2017) but despite good plans, concrete implementation is yet missing (Butscher & Byci-Lleshi, 2017). Vocational trainings, such as the dual system in Switzerland, are one example on how Kosovo and the international community are trying to fight the lack of professional skills. Vocational trainings could also potentially be a solution on how to preserve Kosovan traditional crafts and professionalize the youth for a more favorable perspective (Haxhiu, 2016). Graduates often lack professional skills closely related to their fields of studies due to not practice oriented curricula.

¹¹ The significant increase of graduates from education sciences in 2013/14 could not be elaborated via the university's communication platforms.

The government, the international community and the companies then need to provide them through costly trainings upon graduation in order to meet the requirements. A success in this direction was achieved by the Swiss Cooperation Office in Kosovo. Universities have implemented industrial boards that consist of faculty members and representatives of the industry to align the study content to the needs of the industry (Butscher & Byci-Lleshi, 2017).

5.3.4 Diaspora

The diaspora describes the non-resident population and people with Kosovan backgrounds living abroad. There is no data that confirms the number of Kosovans living abroad due to different reasons. People that emigrated from Kosovo during the Yugoslav era were registered as Yugoslavians. Some foreign migration agencies give hints via the languages that the migrant spoke but this still gives not conclusive insights due to the relatively large number of the Serb ethnic population that used to live within the territory of Kosovo (Burri Sharani, et al., 2010). Another main reason why a conclusive number of Kosovans cannot be found out, is due to the naturalization of said people.

Success stories of Kosovans abroad include Rita Ora (British pop singer), Luan Krasniqi (German-Kosovan boxer), Ylfete Fanaj (Cantonal council of Lucerne) and many more who have accomplished to integrate and live a normal life in their domestic societies. A widely used yet disputed estimation by the United Nations Development Programme speaks of 800'000 Kosovans living abroad. Germany followed by Switzerland being the top destinations for migration with 300'000, resp. 155'000 people (Xharra & Wählich, 2012). Other sources estimate that there are 150'000 to 170'000 people with a Kosovan background living in Switzerland (Burri Sharani, et al., 2010).

The diaspora is considered to have an important role when it comes to FDI. The Austrian-French Centre for Rapprochement in Europe (2006) found that the global overseas diaspora invests almost nothing, while the European diaspora invested the equivalent of 15% of Kosovo's GDP, which represented 10% of total investments. Furthermore, investment-linked risk is perceived smaller by the diaspora than investment-linked risk perceived by other potential investors. Also, the World Bank Group (2017) acknowledged the economic growth thanks to FDI from the diaspora.

The diaspora is a very important economic driver for Kosovo, both in terms of remittances and seasonal economic boost. In a study conducted in 2009, close to 30% of the population declared to have access to international remittances (Forum for Democratic Initiatives, 2009). Today it is closer to 20% of the population, of which 10% state that it is their most important source of

income (Swiss Embassy in Kosovo, 2017). Figure 13 shows the annual remittances in Kosovo. The figure presents an overall increase over an 11 years term¹², despite some decrease during 2011 and 2012. Switzerland accounted as country of origin for 23% of all remittances in 2016 (Swiss Embassy in Kosovo, 2017). Since remittances can have different forms, also ones that cannot be tracked statistically, some sources imply the value of remittances is more realistically close to 1 EUR bn per year (Xhiha, 2016). Besides boosting economy, remittances also help to keep poverty at a low rate (Butscher & Byci-Lleshi, 2017).

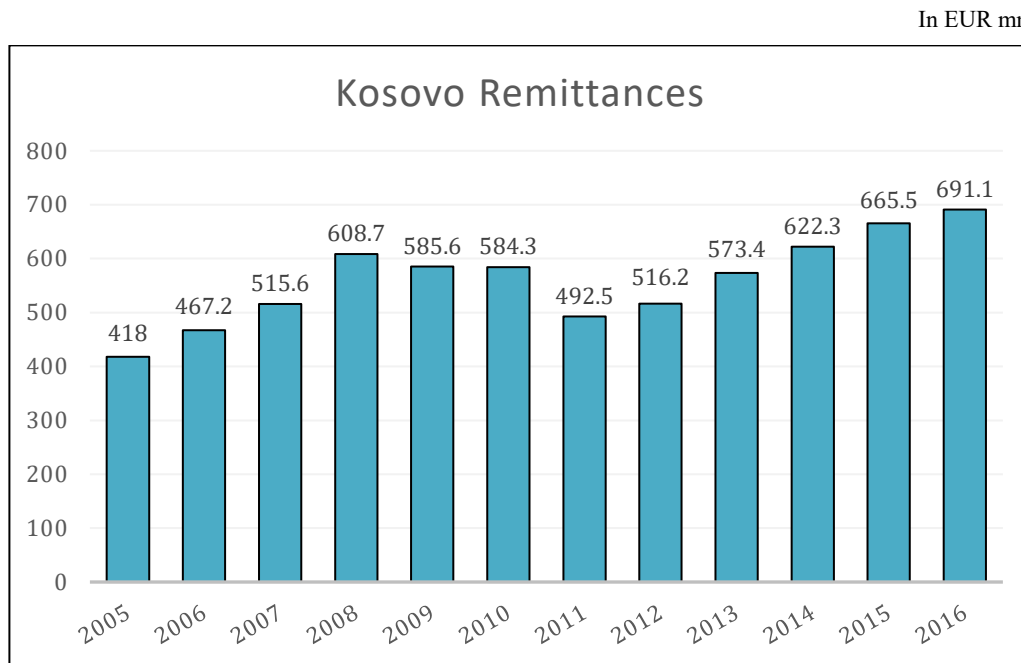


Figure 13: Kosovo annual Remittances (based on: Trading Economics, 2017)

Mostly for consumption, remittances were however sometimes used for investment. Out of 500 interviewed business owners in Kosovo, 25% stated their businesses were set up partially or completely with funds generated from work abroad. Switzerland was mentioned most of the time as origin of funds (Forum for Democratic Initiatives, 2009). Subsequently, Figure 14 specifies the form of support received for the business set up. Business owners mostly named cash money as the main form of support, followed by the support through joint-investments. Interestingly, 8% of the answers, uniquely allocated support received to soft factors (Professional skills, know-how and international network).

¹² Linear extrapolation based on the first quarter suggests another increase for 2017.

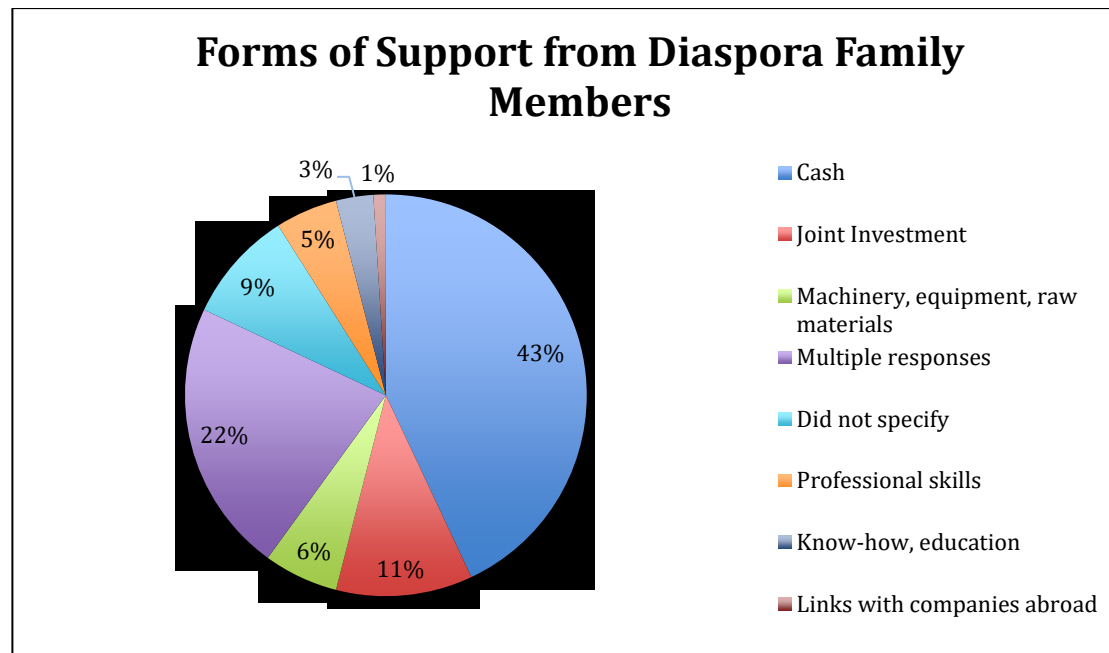


Figure 14: Forms of Support for Business set up (based on: Forum for Democratic Initiatives, 2009)

Despite all the positive effects that remittances have for the domestic economy, it comes at a certain price. Remittances in the mid-term foster laziness and hinder innovation. Remittances recipients will not bother to work or develop their businesses if they would receive the money anyway through family members from abroad. Laziness and lack of innovation will lead to economic underperformance and this in turns will create dependency. This dependency will soon become increasingly critical, since the generation accounting for most remittances is aging and supporting the family in Kosovo on the pension is not very likely to happen. The younger generations do not have the same identification with Kosovo as their parents and hence will not be as eager to send remittances (Butscher & Byci-Lleshi, 2017). A scenario like this could leave back a vacuum of capital shortage due to long-term negligence of economic capabilities. Schlüchter (2016) names another reason of remittances negatively affecting the economy; higher prices. A large volume of cash money in circulation leads to increasing domestic prices.

Beneficial aspects of the diaspora, besides provision of remittances, are largely disregarded. Culture, work discipline and professional business skills are among the perks that need to be fostered from the diaspora (Gërxhaliu, 2017).

6 Analysis of Enabling Factors

This chapter describes enabling factors that improve (qualitative) and increase (quantitative) FDI. These two features are presented separately in this thesis but in reality, they often go hand in hand and are dependent on one another.

6.1 Factors for Improvement

Factors for improvement include the continuous shaping and structuring of the setting in the country and can determine whether an investor is persuaded that the location is favorable for him/her and his/her operations. The tangible outcome of improvement factors is what was already covered in the environmental analysis (see chapter 4) but for the input it requires vision, strategy and realization.

6.1.1 Domestic Legal Basis

The Law on Foreign Investment

The law on foreign investment was passed in November 2005 under the UNMIK administration. The law builds the legal basis for foreign investment in Kosovo. The main topics include (Assembly of Kosovo, 2005):

- Fundamental and specific rights, guarantees and privileges
- Resolution of Investment Disputes
- Foreign Investment Institutions

The law says that any foreign investor must be treated like a local and cannot be subject to discrimination. It also holds the state to some extent accountable for compensation in case of disturbance within the investment regime if legal changes affect existing investments. Protection and security must be assured (including compensation for armed conflict, political or economic violence), expropriation must meet legal requirements and investors need to be compensated at a fair market rate.

Swiss-Kosovan Agreement on Promotion and Reciprocal Protection of Investments

Swiss investors are further subject to the agreement between Switzerland and Kosovo on promotion and reciprocal protection of investments (Swiss Confederation & Republic of Kosovo, 2011). The Agreements contains many features similar to those found in the law on foreign investment but gives additional jurisdiction concerning settling of disputes and international mechanisms for arbitration.

The Law on Strategic Investment

With its coming into force only in February 2017, the law on strategic investment provides a suitable basis for larger investments, including FDI. The government allows projects to be given strategic investment status if they fall under any of the defined strategic sectors and meet the corresponding minimum capital below as well as other requirements, as defined by the Assembly of the Republic of Kosovo, (2017):

- | | |
|---|--|
| - Energy with infrastructure and Mining | (investment capital: ≥ 30 EUR mn) |
| - Transport and Telecommunication | (investment capital: ≥ 30 EUR mn) |
| - Tourism | (investment capital: ≥ 20 EUR mn) |
| - Processing industry | (investment capital: ≥ 20 EUR mn) |
| - Agriculture and Food Industry | (investment capital: ≥ 10 EUR mn) |
| - Health | (investment capital: ≥ 30 EUR mn) |
| - Industrial and Technological Parks | (investment capital: ≥ 10 EUR mn) |
| - Wastewater and Waste Management | (investment capital: ≥ 10 EUR mn) |

Projects that are granted strategic investment status are negotiated at government level and are accompanied by an expert operational group within KIESA, appointed by the strategic investment committee. Strategic investment projects enjoy priority and a range of services, including:

- Assistance in administrative procedures for obtaining licenses, permits and authorizations at public institutions.
- Assistance in the performing of preparatory actions, preparation of documents necessary to initiate administrative procedures for obtaining licenses, permits and authorizations.
- An accelerated procedure for examining applications, which relate to the preparation, implementation and realization of strategic project.
- Support on access to basic infrastructure, in accordance with the relevant Law on State Aid.
- Making available the state-owned immovable property for the purposes of developing and executing strategic investment projects.

The law on strategic investment allows relatively inexpensive access to incentives, especially in terms of the use of state-owned property and accelerated procedures.

The government has defined these sectors as strategic because of their economic impact or potential for economic growth. Some of these sectors are directly related to the SAA and will contribute to meeting requirements concerning the EU accession.

The law on strategic investment can have a positive impact on establishing larger FDI in strategic sectors but is rather generic as many countries have similar measures (Butscher & Byci-Lleshi, 2017). Certain types of state-owned property, for example agricultural lands, can even be offered by municipalities without having strategic investment status (Lichtenhahn, 2017).

6.1.2 International Collaboration

World Bank Partnership Framework

The framework encompasses the support of the government to achieve its medium-term goals as declared in the “National Development Strategy 2016 – 2021” (NDS), but has also defined own focus areas (World Bank Group, 2017):

Focus Area 1 - Enhancing Conditions for Accelerated Private Sector Growth and Employment

- Improve the business environment and access to finance
- Improve productivity of the agricultural sector
- Enhance employment opportunities and inclusion for youth and women

Focus Area 2 - Strengthening Public Service Delivery and Macro-Fiscal Management

- Strengthen selected systems to improve quality, accountability, and efficiency in the delivery of education
- Broaden the coverage and improve equity of health services
- Improve the sustainability of public finances and public-sector management

Focus Area 3 - Promoting Reliable Energy and Stewardship of the Environment

- Create the foundations for reliable, cleaner, and more efficient energy supply
- Enhance energy efficiency and renewable energy
- Improve management of natural resources and address environmental contamination

The focus areas are linked to concrete projects and support that support the implementation. All focus areas, if implemented in a well and timely manner, will improve the economic environment, hence also the investment environment. It will pave the road for expert organizations who can contribute to any of the fields, potentially also FDI. Some of the contents of the focus areas, e.g. the promotion of renewable energy, are directly linked to the conditions for EU accession, which is also why this industry is defined as strategic by the government.

The Multilateral Investment Guarantee Agency (MIGA) as part of the World Bank Group, gives the opportunity for investment guarantees for up to the value of 20 EUR mn. MIGA further has a

wide range of insurance services such as insurances for political instability, but have not been demanded until the day of signing (World Bank Group, 2017). This can be explained through an absence of knowledge of such services by investors or that there is no risk exposure for investors and therefore no demand.

Stabilization and Association Agreement

As already mentioned, the SAA is the most important success of Kosovo towards the EU.

The SAA is the first contractual relationship between the EU and Kosovo, it constitutes a comprehensive framework for closer political dialogue and economic relations (European Commission, 2016b).

The SAA is an extensive framework that ranges in all corners of state governance, democracy and economy. The potential economic effect is particularly attractive for investors. The adoption of the SAA will substantially improve Kosovo's trade and investment integration with the EU. The implementation offers significant opportunities to improve access and competitiveness of Kosovo's firms in the EU single market. EU Member States are the biggest foreign investors in Kosovo (50.9 % of overall FDI since 2007) (European Commission, 2016b). All the more is the timely implementation crucial (World Bank Group, 2017). The government has therefore worked out the “National Programme for Implementation of the Stabilisation and Association Agreement” (NPISAA), an extensive document that steers the implementation¹³ (Government of the Republic of Kosovo, 2016).

6.1.3 Domestic Development

National Development Strategy

The NDS describes the government's goals for national development and form and additional branch towards improvements of the investment environment. The NDS comprises the four following pillars (Government of the Republic of Kosovo & Office of the Prime Minister, 2016):

1. Human Capital
2. Good Governance and the Rule of Law
3. Competitive Industries
4. Infrastructure

¹³ A follow-up or report concerning the implementation status could not be found by the author.

The pillars include specific goals that could contribute to a more qualified workforce, a more transparent legal system, less industry restrictions and better infrastructure. All of which will improve the investment environment in Kosovo.

The Private Sector Development Strategy

Similar to the NDS, the Private Sector Development Strategy 2013 – 2017 specifically focuses on the development and promotion of the private sector. The strategy identifies a number of issues and builds a catalogue of measures to address them. Many measure affect FDI indirectly, Figure 15, presents the measures that directly address FDI.

2.2 More activities on Investment Promotion, both, Inside and Outside the country	2.2.1	Until the end of 2015, we aim to organize 21 business forums and 10 visits, both with the purpose of promoting FDI's
	2.2.2	Participate in at least 6 international events, that are organized with the aim of investment promotion
	2.2.3	More efforts in promoting the investments to the Diaspora
	2.2.4	Signing at least 10 MoU's for cooperation between the Promotion Agencies of Kosovo and those of other countries
	2.2.5	Publishing at least 5 new promoting materials and do at least 3 feasibility studies in the sectors having FID potential
2.3 Monitoring the current FDI's	2.3.1	During 2013-2015 regular visits to the foreign investors for the monitoring purpose
	2.3.2	During 2013-2015 to organize at least 3 technical trainings with the purpose of improving the service to the foreign investors
2.4 Protecting the Foreign Investors	2.4.1	Until the end of 2015, at least 10 new MoU's to be signed for the investment protection
	2.4.2	Training of the working groups that do the bilateral agreements

Figure 15: FDI measures - Private Sector Development Strategy (source: Ministry of Trade and Industry, 2013)

No justification of the measures decided on is however given, which would describe why the Ministry of Trade and Industry has proposed these measures and how they came up with it. The strategy is also set for the period 2013 – 2017 and the deadlines for the measures concerning FDI have also mostly ended but no status has been communicated.

6.2 Factors for Increase

Factors for increase include the promotion of the country as an investment location but also establishing mechanisms or incentives to specifically attract foreign investors. The tangible outcome of factors for increase is a positive FDI net inflow.

6.2.1 Investment Promotion

Promotion is a crucial activity for attracting foreign investors. The extend and reach of promotional activities can vary depending on the designated appointee's competences. Kosovo, like most countries, has established an investment promotion agency (IPA) under the responsibility of the Ministry of Trade and Industry. KIESA holds these IPA competencies and closely collaborates with various institutions and organizations related to foreign investment, cross-border trade or private sector promotion in Kosovo. It therefore secures a central position with a large network and enables dialogues between them.

The functions of an IPA can vary depending on the competencies the government has entitled it. Functions are generally distinguished between classical activities, such as: facilitation and services, image building and generation, and policy related activities, as illustrated in Figure 16. Apart from the classical IPA tasks, the law on foreign investments Art. 20.1 "d" and "f" imply policy advocacy functions for KIESA (Assembly of Kosovo, 2005).

	Function	Description	Example of means
„Classical“ IPA tasks	Investor facilitation and investor services	Assisting an investor to analyze his decision, establish a business and ensure it continues to operate	Provision of information, assistance in getting approvals, assistance with sites, utilities, etc.
	Image building	Creating the perception of a country as an attractive site	Advertising and public relations
	Investment generation	Targeting specific sectors and companies in order to create investment leads	Identification of targets, direct contact, forums, seminars, etc.
Policy-related activities	Policy advocacy	Supporting initiatives to improve the investment climate and identifying private sector views.	Surveys, participation in task forces, policy proposals, lobbying.

Figure 16: Functions of IPAs (source: Kersan-Skabic, 2015)

KIESA is highly present regarding investment promotion activities domestically and abroad. They have also made available a certain number of reports, publications and books about Kosovo and its potential sectors as investment opportunities. KIESA's services are categorized in four

activities: Investment promotion, export promotion, SME supporting projects, development of economic zones. Services around investment promotion include (KIESA, n.d.):

Pre-investment services

- Assistance and advice on how to start a new business in Kosovo
- Assistance in business registration procedures
- Assistance for obtaining permits and licenses
- Organize meetings with local and central institutions, as well as local and foreign businesses
- Finding an ideal location for establishing a business

Investment services

- Assistance on finding real-estate
- Assist in application and placement of business in economic zones and business incubators
- Provide information on specific sectors, projects and potential partners

After care services

- Facilitation and organization of B2B meetings and conferences
- Provide information on legal changes, taxes and other information

The services are typical IPA activities. After-care was found to be insufficient and extension of these services should be intensified (Gërxhaliu, 2017). The ten following reasons are communicated by KIESA on why to invest in Kosovo (KIESA, 2015):

1. Youngest population in Europe
2. High availability of skilled and cost-effective labor
3. EURO as the official currency
4. Free access to markets of EU, US and CEFTA
5. Low taxes
6. Stabilizing political environment
7. EU-compatible legislation
8. Strategic location and developing infrastructure
9. Sound banking system
10. Great investment opportunities¹⁴

¹⁴ Refers to high potential sectors and outsourcing opportunities.

The reasons are mostly in line with the analysis of the thesis at hand. Reason 2 argues with the availability of skills, which is yet disputed as skill is not clearly defined in studies conducted (see chapter 7.2) and contrasts with findings concerning professional requirements. KIESA also explicitly says for reason 6, that the political environment is stabilizing, which is true if one considers the development of the political environment up until the point of publication but political instability has reemerged since then.

The effectiveness of IPAs is not very easy to determine since it is highly dependent on the quality of the investment climate and the level of development of the country in which the IPA operates. Countries with a relatively poor investment climate or low income per capita should focus on improving these factors rather than spending on promotion. The argument being that improving the investment climate will not only contribute directly to attracting more investment, it will also enhance the impact of promotion and, in turn, lead to additional investment (Morisset & Andrews-Johnson, 2004). If IPAs however, hold policy advocacy functions it can benefit the economy, even though the investment climate is not fully developed, as policy makers have a linkage that maintains contact with potential investors and can consider their expectations for the investment environment.

6.2.2 Privatization

Leftovers of the Yugoslav era include state owned entities (SOE) within specific industries. Privatization is a rather easy measure to enter an industry, also for investors from abroad. The privatization Agency of Kosovo (PAK) is the successor of the Kosovo Trust Agency, established by UNMIK. To this day PAK has completed some 60 privatization waves and more than 30 sales waves of assets in liquidation. Among the privatized objects, many have turned out successful including some in the hands of foreign investors. The law on foreign investment is also applicable for privatization and liquidation tenders. Foreign investors are guaranteed equal treatment, rights and obligations like residents of Kosovo. The next sale of assets in liquidation is scheduled for the beginning of September and mainly includes objects in the form of agricultural land. Interested investors need to apply for bidding personally or through an authorized representative and must hand in their offers at the PAK office (PAK, n.d.). The process is fairly transparent and regulated. SOE that are intended to be privatized imply the (former) presence of a full industry, including infrastructure, supply, market, industry knowledge, labor force, etc.

6.2.3 Investment Incentives

It is important to be aware of the fact that countries are in constant competition with each other when they want to attract foreign investors, except for if they have resource that no competing

country has. An economy is usually limited to what it can offer in terms of market size availability of labor, etc. Some aspects can be influenced, such as infrastructure, skills, customs regulation etc., but they require time to establish legal, institutional and administrative frameworks, which allows the investment climate to mature (Cass, 2007). There are not many means to distinguish itself from competing investment locations but yet an investor will usually choose an investment location that is more favorable for his or her business. Incentives are therefore an important measure to create a more favorable environment for specific investors and to gain competitive advantage over neighboring envisaged locations. Trend reviews of competition for FDI based incentives were globally found to indicate increasing patterns (Gergely, 2003).

It is generally distinguished between fiscal incentives (e.g.: tax reductions, postponed tax payments, avoidance of double taxation, accelerated amortization, customs exemptions, tax holidays, etc.), financial incentives (e.g.: provision of funds, defrayed capital or operation costs, etc.) and other incentives (refers to all other incentives aiming to increase profitability or decrease costs)¹⁵ (Pula, Loxha, & Elshani, 2017).

Incentives can broadly be offered to increase inflows in general but can also be specifically offered to attract certain sectors or investors. As the government of Kosovo has defined strategic sectors, it makes sense to offer sectoral incentive packages to more effectively target the attraction of investors. And indeed, a study of the International Finance Cooperation (IFC)¹⁶ shows that out of the 46 incentive items identified in 2013, 34 have either a sector focus or are specifically designed for certain groups of enterprises. However, most sector incentives favor agriculture (IFC, 2013). Incentive provision mainly takes place on state level, which potentially allows a high degree of coordination and oversight. But Lichtenhahn (2017) implies incentives negotiations on municipal level being rather informal and subjective. Most items take quite a long time to be awarded, 31 incentives procedures took longer than three months. Data on incentives is not fully transparent, due to patchy collection in the past, which is why the value of awarded fiscal incentives on state level cannot be fully tracked. IFC estimations suggest an average of 800'000 EUR mn per incentive award, which is a considerable amount for such a small economy (IFC, 2013).

Appendix 2.4 gives a full overview of communicated incentives of the whole region. It becomes clear, that incentives in the region are quite similar. Kosovo's financial incentives are not very transparent and factually no hint was found on awarding incentives concerning employees. With

¹⁵ Some sources only distinguish between fiscal and non-fiscal incentives

¹⁶ Member of the World Bank Group

such a high unemployment rate, it is surprising that Kosovo does not award items concerning employment. It appears that it is solely relied on the low labor costs for investors attraction. An investor might yet favor a different location with higher labor costs but more incentives, like in Serbia, because it allows a more favorable environment for the business. Kosovo has already lost several large FDI deals to Serbia because of more attractive incentives offered, e.g. 8-10,000 EUR for each new employee, with a job guarantee of 2 years (Cheng, 2014). No item was identified that incentivizes R&D either. Although incentives for R&D are more common in developed countries, Bosnia & Herzegovina and Serbia offer incentives in this direction.

Kosovo does not have the resources to engage in an FDI bidding war with Serbia, so a more flexible approach¹⁷ is required (Cheng, 2014). It is of great importance to design incentive programs to encourage FDI inflows in Kosovo. Designing efficient and effective incentive programs is a complicated task, especially considering the competition between countries. The failure to design them properly may result in profit or welfare increases for MNE rather than for the host country. Given the legal, institutional, and budgetary implications, the government of Kosovo must ensure that the incentives are optimal for attracting investment which can help Kosovo achieve its domestic interests. Thus, policy coordination at various levels of government and prior cost-benefit analyses are necessary to avoid undesirable side effects of new incentive programs. Incentive programs, if they are well-designed and implemented, could enhance the competitiveness and attractiveness of sectors. Therefore, they are an important tool for stimulating export-oriented and employment-generating investments, which must be the key priority for the Kosovan government (Pula, Loxha, & Elshani, 2017).

¹⁷ The flexible approach described by Cheng (2014) refers to, among others, incentives that aid the development of domestic clusters

7 Analysis of Perceptive Factors

Investors from abroad can have a different paradigm towards how the investment environment needs to be. The factor of understanding an investors' perception or creating awareness is therefore crucial for being considered as an investment location. It can further help developing the environment as it potentially unveils perceptive mismatches. The following chapter therefore describes the influence of image and stereotypes on FDI, captures investors' perceptions and the creation of an appealing image.

7.1 The influence of Image and Stereotypes on Foreign Investment

The pictures of war are still present among people outside of Kosovo, who yet might perceive a lack of security. Also, more recent international media coverage has launched a wave of negative reporting and greatly harmed the image and reputation of the young nation. In December 2010, a report revealed links of Kosovan politicians to crimes and corruption during war. In 2011, pictures of the burning northern border checkpoint dominated the international news about Kosovo (Xharra & Wählich, 2012). In 2014 and 2015 media widely reported of around 100'000 economic refugees who left Kosovo in the direction of the EU hoping for a brighter future after the Serbian government lifted border restrictions. The vast majority was returned after only a couple of weeks (Aljazeera, 2015). But also, the diaspora has often negatively struck in the media, intensifying the negative image about Kosovo abroad (Xharra & Wählich, 2012).

Stereotypes about and within the Balkans have developed in relation to socio-political circumstances, and continue to do so. They were heavily influenced by historical circumstances in which stereotypes have been very persistent and were remembered for much longer. The image held by the West about the Balkan states and its citizens was often based on the devaluation of the Balkan nations as a whole, which were seen as lagging behind, uncivilized and even barbaric (Zupanic & Arbeiter, 2016). Images like this cannot remain disregarded by investors looking for new investment opportunities. An investor will more likely favor an investment destination of which he or she has a positive perception of, over a destination with a negative image.

Stereotypes can further affect the extend of foreign investment. External uncertainties may affect investors' strategic decisions in the process of a firm's cross-border expansion, such as FDI, in various forms, for example by giving preference to entering countries with smaller cultural and psychic distance, selecting entry strategies with a lower risk exposure and committing fewer resources to support the firm's foreign investment. With this imbedded mindset, investors prefer to choose less risky foreign market entry strategies instead of more aggressive ones, which could enable them to quickly and proactively build a strong market position (Korez Vide & Jurse, 2016).

Jaklic & Svetlicic (2016) even found a positive correlation between the share of positive stereotypes and the share of inward FDI in the total FDI within the former Yugoslav countries. The study suggests, that the value of inward FDI stocks in host countries for which positive stereotypes dominate is statistically, significantly higher than in countries where negative stereotypes are stronger.

7.2 Investors' Opinion about Kosovo

The Kosova Chamber of Commerce's (KCC) survey on the opinion of foreign direct investors (KCC, 2016) gives a comprehensive insight about current foreign investors perception of Kosovo as an investment location and experiences about their operations in the country. The study was made available to the author by the KCC during his stay in Prishtina as it was not publicly available. The full study is therefore attached under appendix 2.5 for transparency reasons.

Major findings include that 60% of 250 foreign investors surveyed have expressed their commitment to reinvest, 38% declared no further investment plans, while 2% were analyzing possibilities for disinvestment. 76.4% of all participants said that they were made aware of investment opportunities in Kosovo through personal (business) contacts, followed by customers in Kosovo (12%) and existing investors (5%). The business activities of the organizations surveyed are dominated by: Sales (31%), Production/Manufacturing (28%) and Services (27%).

Table 8 gives a full overview of the importance of each factor as perceived by the respondents and the qualitative change perceived during the past three years¹⁸. The results show that highest importance is given to "Country Legal Framework", followed by "Availability of skilled labor", "Quality of Life" and "Low Labor Costs". Least importance is placed on "Incentive Packages" and "KIESA Assistance". When asked about how these factors have changed in the past 3 years, 12 out of 15 factors were overall assessed to have become worse. Balanced scores of investors surveyed only perceived "Country Legal Framework", "Incentive Packages" and "KIESA Assistance" to have improved. "Quality of Infrastructure" was perceived to have changed worst, followed by "Low Labor Costs" and "Quality of Life" (KCC, 2016).

¹⁸ The number of responses varies due to many investors operating in Kosovo for less than three years, inconsistency in the questionnaire and potentially also due to incomplete answers from the participant's side.

	<i>Importance of each factor</i>							<i>How have these factors changed over the past 3 years?</i>						
	Not Important (-2)	Helpful (-1)	Important (0)	Very Important (+1)	Crucial (+2)	Balanced Score	Ranking	Much Worse (-2)	Worse (-1)	Same (0)	Better (+1)	Much Better (+2)	Balanced Score ¹⁹	Ranking
<i>A. Business Climate Conditions</i>														
<i>Political Stability</i>	67	53	45	46	16	-109	12	2	53	149	23	0	-34	9
<i>Economic Stability</i>	19	39	67	33	34	24	5	22	23	131	38	0	-29	7
<i>Quality of Infrastructure</i>	10	44	89	42	23	24	5	7	98	94	8	2	-100	15
<i>Country Legal Framework</i>	15	18	107	35	37	61	1	0	49	98	8	22	3	1
<i>Quality of Life</i>	7	38	99	38	26	38	3	2	85	108	13	0	-76	13
<i>Physical Security</i>	10	37	101	19	5	-28	9	2	64	103	3	0	-65	12
<i>Existing Foreign Investor's Experiences</i>	42	50	54	13	1	-119	13	0	35	120	5	0	-30	8
<i>Double Taxation Treaties</i>	50	23	68	8	4	-107	11	1	20	123	9	0	-13	5
<i>B. Market Conditions</i>														
<i>Local Market</i>	39	12	42	23	45	23	7	0	22	120	18	0	-4	4
<i>Regional/Continental Market</i>	36	35	62	23	31	-22	8	0	47	130	8	2	-35	10
<i>C. Local Resources</i>														
<i>Low Labor Costs</i>	30	33	71	36	42	27	4	10	69	129	4	1	-83	14
<i>Availability of Skilled Labor</i>	13	25	85	41	35	60	2	4	63	118	11	3	-54	11
<i>Local Suppliers</i>	47	20	23	12	2	-98	10	1	19	79	5	0	-16	6
<i>D. Other Location Factors</i>														
<i>Incentive Package</i>	94	11	8	7	0	-192	15	0	4	110	6	0	2	2
<i>Kosovo Investment Board (KIESA) Assistance</i>	78	24	5	3	1	-175	14	0	1	106	3	0	2	2

Table 8: Answers overview of "After Care" survey (based on: KCC, 2016)

¹⁹ The author has recalculated the results based on the weighting described in the study.

Despite the perceived largely worsened factors for investment, 81% of respondents expect a sales growth over the next two years and 61% even stated to have encouraged other companies to invest in Kosovo. When asked about the work quality of local employees, foreign investors answered 12% excellent, 28,8% very good, 48.8% good, 8.4% bad and 2% very bad. In terms of incentives, surprisingly only 4% of the sample size declared to have received fiscal or financial support from public institutions, which explains the relatively low importance on incentives packages. 70.4% of the respondents have entered Kosovo via greenfield investment, followed by 23.2% through a joint venture²⁰ and 6.4% through M&A (KCC, 2016). This finding is contrary to the general trend of the preferred method to enter FDI (see chapter 3.2).

Shaipi, Krasniqi, Mati, & Gashi (2014) found differences between perceptions of foreign investors²¹. Figure 17 presents the results of current investors and potential investors for the survey conducted. By comparing the average perception scores of all factors, it can be said that a more positive perception is shared by current investors (43% positive, 27% neutral and 29% negative) than by potential investors (37% positive, 32% neutral and 31% negative), which implies that the investment environment is perceived worse prior to gaining operative experience in the country. The average overall score therefore might go hand in hand with the image of the country, which scored negative for potential investors. Free economic zones and trading across borders was perceived most negative among both groups. This potentially indicated why the processes for customs were simplified in the recent past. Rule of law is perceived worse by current investors than by potential investor, for corruption it is the other way around. Incentives are perceived similarly negative by both groups, contrasting the results of the previously presented study²². The survey further reveals that for 72% of the participants, the incentives provided by the government were an important factor for investing. However only 27% of the respondents stated that the information available on incentives was sufficient. When asked about the likeliness of re-investing within the next three years, 58% of the respondents stated that it is most likely. In general, the political factors are perceived the worst among both groups.

Both groups were also asked about the importance of recommended measures to improve the investment climate. Both groups recommended to 100% to take measures on better anti-corruption. The current investors further recommended to improve overall incentives for investors, the country/regional image and improving competition policies. Similarly, potential investors answered to improve the country/regional image, adapting international accounting systems and to improve competition policy.

²⁰ It is not further explained if the joint venture was newly established or integrated with an existing firm.

²¹ 12% of the respondents were Swiss investors.

²² Since both surveys pose the same question, the contrasting results are likely to be attributed to disparate conduct.

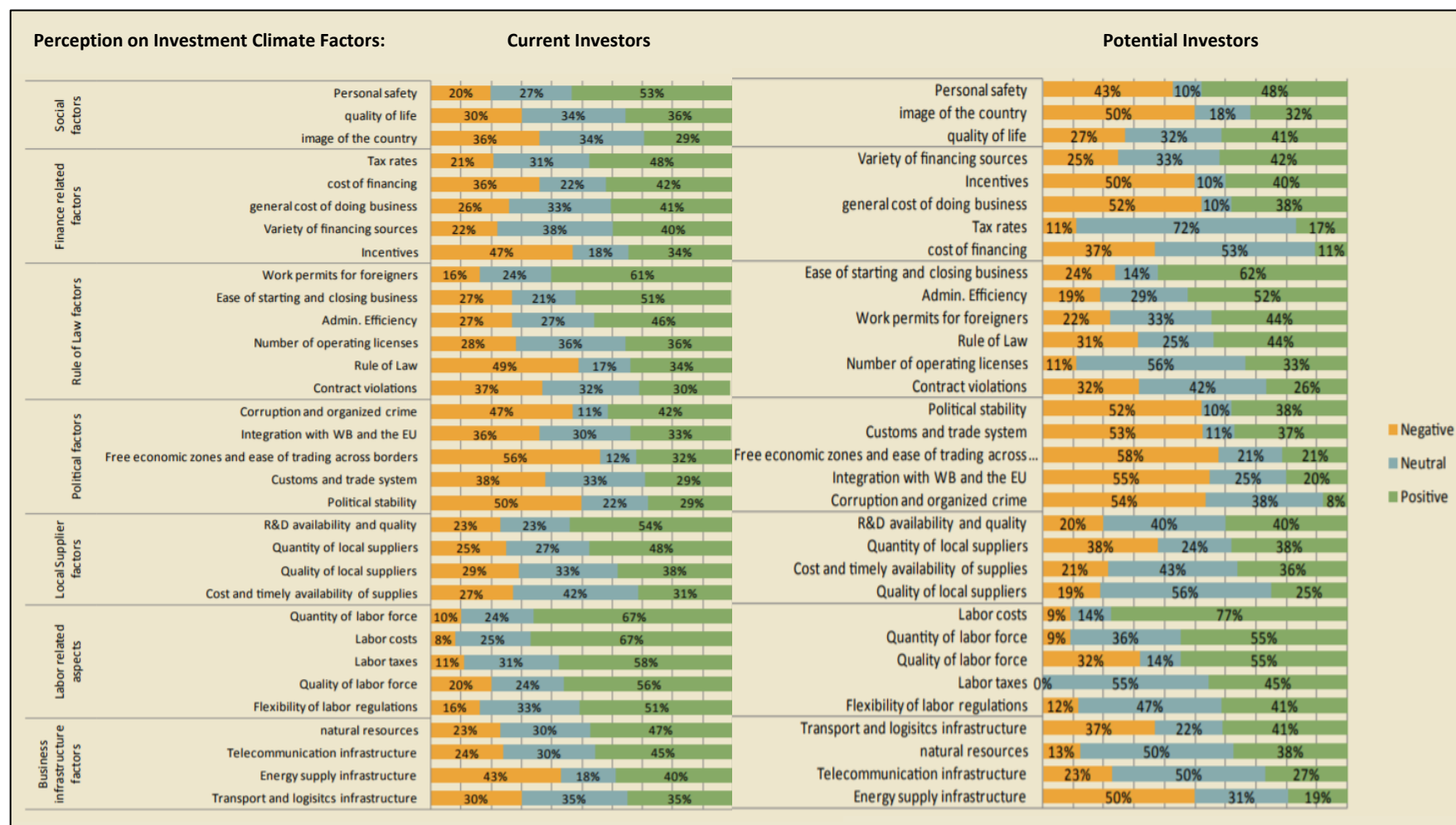


Figure 17: Overall Results- Perception on Climate Factors (based on: Shaipi, Krasniqi, Mati, & Gashi, 2014)

There further seems to have occurred a shift of perceptions, when comparing the results of the 2013 to the 2009 survey. While the young and dynamic labor force, the emerging market and the labor costs were named the top three most positive aspects of the Kosovo investment climate in 2009, only labor costs remain one of the top three most positive conditions in Kosovo. Low tax rates and the ease of starting and closing business are the other two top results of the 2013 study. Furthermore, major improvements are perceived for quality of labor force and flexibility of labor regulations compared to the 2009 survey (Shaipi et al., 2014).

7.3 Creating an Image that appeals to Foreign Investors

Bad image is among the main reasons what keeps foreign investors away, especially the bad image that the political scene has reflected in the past (Butscher & Byci-Lleshi, 2017).

To create an image that appeals to foreign investors however, is not very easy and requires time and effort. Factors for the investment environment need to be further developed and proven continuous reliability, these factors will then determine the country's image as an investment location. Creating a positive image based on facts and truth needs to be a priority in order to become more attractive to foreign investors (Gërxhaliu, 2017). The closer linkage to the EU and its use of guidelines and standards through the SAA will further help to be noticed by the international community as a destination for investment. To make full use of the SAA however, it needs to be accompanied by urgent economic reforms and rule of law (World Bank Group, 2017).

The progress achieved in the ease of doing business ranking also helps to be made aware of by foreign investors. The ranking describes indicators of a framework that were improved by the government in collaboration with the World Bank, which in turns can give confidence to investors as they can track the progress relative to other investment locations (Butscher & Byci-Lleshi, 2017). The accompaniment of foreign investors throughout their operations in Kosovo is another construction site in the development that will help to generate a better image as an investment location. KIESA is expanding its after-care services to further serve the investors beyond business launch (Gërxhaliu, 2017). Above all, stands the exposure of Kosovo as an investment location, which is a costly and time-consuming activity. A suitable measure to bridge this discrepancy is through informal ambassadors. As revealed, 61% of the investors surveyed by the chamber of commerce did encourage other companies to invest. A similar potential could be found in the Kosovan diaspora. Xharra & Wählich (2012) suggest to using mainly the 2nd and 3rd generation of diaspora as informal ambassadors, because of their foreign education, integration and less pre-occupation with the past. The achievements of the diaspora need to be acknowledged and shared. Information needs to be made easily available to them and an incentive system could help to strengthen the effect.

8 Investment Profile

The research objective of the thesis includes the suggestion of an investment profile that is potentially suitable for investment in Kosovo. Of course, a single profile can never be suggested, which would guarantee success. Investment locations, just as business environments, are diffuse and the ability to succeed in which is subject to a complex construct of business planning & conduct, dynamics of business environment, management abilities, market behavior and many more. The results of the factors analysis however, give indications of characteristics that could be beneficial for the investment climate presented in the thesis at hand. The characteristics described below do not necessarily have to be all consolidated within one investment project, besides being unlikely, however a combination of them can be seen as a suitable profile.

8.1 Characteristics of Investments

A characteristic that seems to find general consistency is the limited investment volume. It appears that smaller foreign investors prevail the FDI landscape. The average size of FDI in Kosovo could not be found but the two investors surveys give hints about their nature. Shaipi et al., (2014) asked about the global sales of the represented organizations in the sample. 62% of the respondents stated that the global sales were less than 20 EUR mn per year, which also was the smallest size to tick in the questionnaire. KCC (2016) did not ask investors about the value of their investment but their intended value for re-investment in case they made further investment plans. 64% of the respondents expressed their commitment to re-invest an accumulated value of up to 500'000 EUR, of which the majority stated their re-investment will not exceed 100'000 EUR.

There are a number of reasons why large-scale investors from abroad still might avoid investing in Kosovo. On the one hand, the market is quite small, with a population of less than 2 million and unappealing due to low disposable income. The fact that 96% of all business in Kosovo have less than 5 employees suggests that large business might struggle to find adequate domestic suppliers. On the other hand, the investment environment has yet to get rid of factors that allow ambiguity and hence pose risk particularly to large investments. Based on the analysis, these factors are:

- Political instability

A sudden and incremental change in the political landscape of a country could distort the relations with the public sector, who usually is an important stakeholder of high value investments. This risk is reinforced in Kosovo where the public sector is this extensive. Agreements, relations and/or collaborations could become meaningless if governments change or if the distribution of the assembly seats shifts.

- Corruption & Rule of Law

Large investments have a higher risk towards being involved in corruption. Firstly, large investments are associated with high values, which will attract people who want a share of the it. Large investors can only partially limit their exposure or the volume of their investment, which then easily could become a target of officials and politicians alike. Secondly, larger investments usually also have broader business activities and therefore require more interaction with authorities and officials, which allows for additional corruption opportunities. Corruption for large investments pose a threat as one official refused to bribe can endanger the operation of large-scale business activities and with this hamper or jeopardize returns.

Rule of Law is particularly important for larger investment due to their high value operations. Foreign investors cannot for example risk to go through contract violations without the security of knowing that there is fair and timely prosecution and compensation for them.

- Status question & Access to foreign markets

Even though 114 UN members have recognized the independence of Kosovo, the status question remains not yet fully resolved. Not only the neighboring country Serbia refuses to recognize Kosovo but also Russia and China continue to do so. This not only restricts the regional access but also puts additional obstacles on the global access, both of which are usually not in the interest of an MNE. Kosovo is member of CEFTA, which allows access to a market of close to 30 million people. The export market further expands when the trade preferences are considered. However, MNE with large exporting activities can select any of the investment location in the region with similar or more access to global markets. These limitations suggest that smaller, more flexible FDI have an advantage in Kosovo.

As already pointed out, investment activities in any of the strategic sectors defined by the government allows for extensive support from public authorities, as these sectors help the country reach their own strategic goals and requirements from the international community. The awarding of the status of strategic investment gives access to valuable incentives, prioritization and use of SOE.

Due to the very low labor costs, labor taxes and the young workforce, the market gives good opportunities for labor intensive work. Kosovo is also fairly closely located to the EU and the SAA will aid to establish EU regulations, meaning that EU standards could be accessible at low price in the near future. Investment activities that could profit from this condition in particular, are: Production, Manufacturing, Processing and Agriculture. The application of EU standards in those fields could open trade to EU and affiliated customers.

There seems to be uncertainty on the level of skill that the workforce in Kosovo has to offer. The figures for university graduates indicate a high number on the tertiary level but different sources point out the weaknesses of the education system in terms of qualification and emerging professions. This implies, that investors have easier access to labor if their operations are simpler. Investors must keep in mind, that more complex work might require further training or that know-how on latest technologies and procedures might have to be imported.

In general, there appears to be a large demand for consumption, which can only be met through import due to low efficiency and capacity of domestic supply. Therefore, if investors can produce and offer consumption goods at a cost-efficient level while maintaining or improving quality, this could substitute for imports and give advantage to the domestic suppliers.

Investors need to keep in mind that although the country is closely located to western European countries, the culture is very different. Collectivism and Power distance appear to be two of the major differences between the Kosovan and the Swiss culture. It is therefore essential to either work with locals or people that understand the culture. A rather convenient condition is the existence of the diaspora. Especially in Switzerland and Germany, investors have easy access to qualified professionals in different fields who have a Kosovan background. The advantage of these people is their understanding of both (work)cultures, the language abilities and easier access to networks.

A final suitable characteristic for FDI in Kosovo is related to the nature of the investment operation. Kosovo shows good potential for near-shore outsourcing activities. Favorable conditions include:

- Low labor costs
- Acceptable level of education (Economics, IT, Law, etc.)
- No time zone delay
- Language abilities (English and German widely used)²³

This allows for possibilities in activities such as: data processing, programming, information management, customer services, accounting, digitalization, etc. It is a very promising field, that

²³ No official numbers could be found, but due to emigration and seasonal work in Switzerland, Germany and Austria, many residents have learned and used German. The German department for foreign affairs notes a wide appreciation and interest in the German language as well as its current consolidation in the curriculum as a second foreign language (Auswärtiges Amt, 2017).

is also more and more being discovered by Swiss investors who offer their services to customers in Switzerland²⁴.

8.2 Case Study: Sojevë Manufaktur SH.P.K. (in formation)

The following case study exemplifies a business profile of a Swiss investor in Kosovo and includes many of the characteristics described above.

The idea started when the investor Patrick Honauer visited Sojevë, a region in the municipality of Ferizaj and home to his former student Besnik Etemi. He was astonished about the large unused land that Besnik's family owns and decided to involve his co-worker Joachim Lichtenhahn, an environmental engineer. Despite optimal conditions for agriculture in Kosovo, 90% of the fruits are imported. Know-how and latest technology are yet missing in Kosovo, that would allow for cost-effective production (Sojevë Manufaktur, 2017). They formed a joint venture together with a skilled operations manager and the land owner to found Sojevë Manufaktur. The company will cultivate different fruits and vegetables, process dried fruits and press oils, then primarily export the products to the market in Switzerland but also to the regional market.



Figure 18: Sojevë Logo (source: Sojevë Manufaktur, 2017)

Despite the company being still in formation, parts of the production have already started. The founders will sign the last document in September this year and the company will become a SH.P.K. (limited liabilities corporation). The business registration was easier than in Switzerland, as no minimum capital is required and templates exist in all languages. The procedure for business registration also has less steps than in Switzerland and can be completed much quicker. The

²⁴ Successful examples include: baruti AG and MIK Agency GmbH

entrepreneurs only had two issues so far regarding permissions. The land is located close to the NATO/US military base and therefore required permission from the base to operate in close proximity. Business plans, construction intentions, etc. had to be shared in order to receive the permission. The second issue occurred when the entrepreneurs wanted to receive permission for a photovoltaic system in order to bridge outages and avoid high electricity costs as the system could be used for up to ten years but is amortized within two. The procedure is very different compared to Switzerland and authorities gave contrasting information. Sojevë Manufaktur engaged a local company that specializes in photovoltaic systems. They had good knowledge about the procedure and completed the permission and registry within a week compared to approximately three months if the investors would have tried on their own (Lichtenhahn, 2017).

The company does not particularly require skilled labor as most work can be taught within a reasonable amount of time. However, a food engineer had to be flown in from Switzerland in order to plan the product development. There is no study program or vocational training that educates food engineers in the country. The closest to this profession can be found in Tirana, Albania at the faculty for agriculture. Equipment and machines that are required for production can also be found domestically, only a few special devices need to be imported from abroad. The company further intends to making an impact in the region, through the economic activities of the company and its suppliers but also by providing vocational training on food processing. They are intending to collaborate with the new apprenticeship school in Ferizaj (Lichtenhahn, 2017).

The investors are highly appreciated and widely known in Ferizaj. The municipality has offered them additional land if they cultivate it. The founders have not experienced any encounters with corruption or bribery related to business so far. They are convinced that their valuable relations to high officials of the municipality will come in handy if they are confronted with corruption or bribery.

9 Discussion of Results

This chapter aims to discuss the results of the thesis according to the research objective defined and allows to answer the research questions.

9.1 Discussion of Research Question 2

Research question 1:

“Which opportunities and challenges do the relevant factors of the investment location hold for investors?”

Discussion:

Kosovo is a transition country, which went through many changes in a rather short period of time as Europe’s youngest country. The factors analysis makes clear that Kosovo indeed has potential as an investment location. This is underpinned by positive FDI inflows, increasingly business-friendly policies, low operative costs, a strategic location and close ties to the international community, to name a few.

Specific favorable characteristics of the investment environment include the availability and cost of labor, which is highlighted by Kosovan institutions and foreign investors alike. Where there seems to be contrasting information is in terms of skilled labor and could be explained through different perceptions and use of the term “skills”. Some sources refer to the skilled labor force by pointing out the level of academization (e.g. KIESA, 2016) or imply “quality of labor” as part of labor skills (Shaipi et al., 2014) but do not put the term “quality” into context. Opposing sources point out the discrepancies of the education system to meet the qualification requirements (e.g. Rexhaj & Pupovci, 2015 or Butscher & Byci-Lleshi, 2017) or found worsening conditions when asking investors concerning “availability of skilled labor” (KCC, 2016) but did not further specify if skilled labor in general is missing or if the availability for which has become more difficult. In general, the term “skilled labor” is found to be used too vaguely by different sources, which surely contributes to contrasting findings. It is also not clear if these findings are a general phenomenon of the economy or if only certain sectors are affected, since the studies conducted do not take the relative perceptions of the industries into account. Lichtenhahn (2017) points out that most of the skills for work done in his business is not very difficult to acquire but also that he is very satisfied with the work of his employees. However, skills for more complicated work needed to be brought from Switzerland. Therefore, to receive a sounder understanding of skills, studies and surveys related to labor skills should include: The type of work activity or related sector, the complexity of the work or activity and the quality of labor for which.

Other opportunities arise for investors engaging in any of the key sectors, which is prioritized by the government (see chapter 6.1.1). FDI in these industries could potentially achieve strategic investment status and benefit from valuable governmental support. Also, due to the massive trade deficit, investors who are engaged in activities that either substitute for imports or increase exports could receive institutional support and priority. Despite good progress, challenges still persist when dealing with authorities or concerning the cost and supply for electricity. Unreliability of electricity supply represents the single largest obstacle to attracting high-quality FDI to Kosovo. Interestingly, the fact that the Euro is used as the domestic currency was not alluded very often. A stable currency is crucial for the attractions of FDI and unstable currencies can even go as far as preventing investors to consider an investment location (Rogoff & Reinhart, 2003). The Euro is a very advantageous condition, especially for investors from the EU or trading with the EU. The conversion of the Euro to other currencies, such as the Swiss Franc, does also not pose any problems due to stable exchange rates. Another assuring condition for foreign investors with regards to currency is that Kosovan institutions cannot have influence over the Euro base rate, since the Central Bank of Kosovo is not a member of the European Central Bank.

From a political point of view, we face two differing forces that could have an impact on FDI. On the one side, the country has frequently gone through political instability. The re-elections earlier this year, resulted in a certain shift of power, but the assembly has yet failed to establish a government. But also, the status question could not fully be answered so far. On the other side, there is extensive support from the international community such as the World Bank, EU and UN in different fields of nation building, including to establish a suitable environment for FDI. Similar results can be found for the legal dimension. Corruption and weak rule of law prevail the perception of the legal landscape but on the other hand Kosovo's legal framework is approximating towards EU standards.

From a social perspective, it is often suggested to work with locals and to form networks, without which it is difficult to achieve desired outcome in a timely manner and could even help to avoid officials expecting corruption. Nepotism is found throughout large parts of the Balkans and still dominates also Kosovo, especially in the public sector (Jashari, 2016). Nepotism favors relationships and connections over skills and expertise and has therefore a negative effect on potential outcome. Bajrami, Morina, & Haxhiu (2016) found that the legal framework of Kosovo has several provisions that sanction nepotism but the application of which is insufficient. They further point out that the legal framework is only one aspect, education and sensitization is required to effectively fight nepotism.

Demographical factors, such as the young population, could also pose a potential advantage for foreign investors if they engage in labor intensive activities such as construction, agriculture and manufacturing.

9.2 Discussion of Research Question 2:

Research question 2:

“Which profile of a Swiss investor is suitable to engage in foreign direct investment based on the findings from research question 1?”

Discussion:

The set of subsequent characteristics was elaborated from insights gained through the analysis for research question 1 and the interviews. An investment profile comprising some or all of the listed characteristics is regarded as a favorable profile for the investigated investment climate.

1. Small and medium sized investments are regarded as more favorable compared to large investments, since those are less exposed to the disadvantageous environmental conditions such as: global recognition (status question), political instability, rule of law and corruption.
2. Investors engaging in any of the strategic industries that was defined by the government, can apply and be awarded the strategic investment status. Investors will find a more benevolent investment environment through institutional support and prioritization.
3. Investors who seek an optimal performance to cost ratio for labor intensive activities will have good chances to find so in Kosovo. This can include activities related to manufacturing, production, processing and agriculture.
4. Characteristics of investment activities which do not require complex skills have an advantage in Kosovo. FDI enterprises with more complex work might need to invest in additional training to meet their expectations.
5. Investment Activities, able to cost efficiently substitute for imports while maintaining quality, will likely find a high demand and appreciation for domestically produced goods.
6. Investors who have access to skilled professionals with a Kosovan background should seek to involve them. The diaspora understands both cultures and language and will have an easier time to access network systems.
7. FDI which have or offer outsourcing activities can find a potential near-shore location in Kosovo. Low labor costs, intermediate education level, no time zone delay and language abilities, they all are valid reasons to engage in Kosovo.

10 Implications for Investment Location Development

The proposal of measures for development is not part of this thesis. The analysis conducted though, gives implications that could help to develop the investment location. This chapter points out the most important implications.

Bertelsmann Stiftung (2016) conclusively summarizes that Kosovo needs high investments in equipment, and therefore has to improve its investment environment. Electricity shortages, weak rule of law and inadequate professional education hamper the development of the private sector. The Kosovan anti-corruption NGO Çohu (Stand Up) claims that corruption has made Kosovo almost impermeable for other businesses, except for those with political connections.

Adequate plans for structural and legal reforms exist to solve those problems but it is the implementation that is lacking (Butscher & Byci-Lleshi, 2017). A stringent system for implementation, which holds officials accountable, is highly needed in the country to ensure continuous development. Additionally, since Kosovo is still in the process of nation building, reforms yet more serve the political agenda than the economic agenda (Gërxhaliu, 2017). Economic reforms need to become a priority, especially due to the high competition with neighboring countries on FDI attraction.

The education system needs urgent reforms. There is a significant level of academization but at the same time it fails to provide minimum qualification and is unable to employ the graduates. Kosovo needs to promote vocational education that generates added value for the private sector and hence allows to develop much required skills to meet higher expectations of investors from abroad.

The promotion of clusters seems to be promising for a location such as Kosovo according to Cheng (2014). Rather than focusing on specific investment activities, clusters can provide a systemic approach to improving the investment environment. Clusters would help to develop and expertise in industries, which would have a positive economic impact. Incentives packages should be designed and skills and equipment should be offered in order to attract investors to form clusters.

The after-care study revealed that more than 75% of the investors were made aware of Kosovo as an investment location through their personal networks. Considering the large diaspora in the home countries of the investors, it makes perfectly sense that the diaspora could, at least partially, influences the decision of foreign investors to consider Kosovo as an investment location. Yet it is astonishing how little is done by Kosovan institutions to benefit from these ties. Kosovo needs

to work together with the diaspora in order to more effectively promote the location for investment (Gërxhaliu, 2017). Collaboration with the diaspora should include the acknowledgement of achievements and availability of information so that the new generation can become informal ambassadors (Xharra & Wählich, 2012).

During the investment and trade conference (see appendix 1.1), KIESA representatives repeatedly stated Kosovo being a location for production, therefore ruling out investors who seek a new market. As part of the Ministry of Trade and Industry, of course it is not in their interest to further potentially burden the trade balance. It is also true that the location might show more favorable characteristics for corporations to produce than to sell but the discouragement of investors, who would potentially contribute towards the development of the investment environment, should be reconsidered. Also, a combination of production and market location should be promoted as these activities can substitute for imports.

11 Conclusion

Investments from Switzerland account for the highest FDI inflows in Kosovo for the past three consecutive years and are among the top three in terms of inwards stock. Swiss investors' awareness of Kosovo is the result of trade preferences and investment agreements between the two countries but also of the large Swiss population with Kosovan background. Kosovo poses a range of advantages and disadvantages for investors from abroad. Despite regular fluctuations, FDI inflows have always remained positive, which indicates an increasing presence of international corporations.

The analysis of the investment factors addressed the most relevant and recent subjects and allowed to receive a broad understanding of the current situation and conditions for foreign investment. The economic environment becomes increasingly appealing thanks to business-friendly reforms and support from the international community. Costs of energy and its supply yet need to be improved. Labor costs and availability of labor are considered the most important reasons for investing in Kosovo and investors are made aware of the location mainly through personal contacts. Political and legal factors as well as the bad image are the primary reasons why foreign investors avoid to engage in Kosovo. Based on the analysis, an investment profile was proposed, which suggests a set of characteristics that are regarded favorable in an environment such as Kosovo.

Investors need to be aware of challenges. Procedures of public institutions might not be as transparent and fast as in Switzerland and skills for more complex work might require additional training. The findings however, suggest that there are indeed opportunities for Swiss investors in Kosovo. Indispensable for a successful investment operation is preparation but information in Kosovo is repeatedly found to be rather scattered and inconsistent. All the more it is important to collaborate with locals or people who know the culture and language.

12 Critical Evaluation

This chapter critically evaluates contrasting, inconsistent or incomplete information or sources, which the author came across during the course of the thesis.

According to the investors perspective survey (see chapter 7.2), skilled labor was found to be a positive aspect in the survey. Also, Gërxhaliu (2017) states that labor costs should only be promoted in connection with the good skills available. Butscher & Byci-Lleshi (2017) however, state that the education system is insufficient and post-graduation vocational training is required to meet qualification requirements. The results of the PISA study further proves discrepancy within the education system. Therefore, labor skills further need to be investigated and adequately defined to bring full clarity.

The fact that Euro is the official domestic currency should be a major argument for the attraction of investors as it guarantees currency stability and no exchange rate loss. It is however only rarely mentioned when the investment location is discussed. Also, none of the investors' surveys asks investors about the influence of currency stability for their decision of the investment location.

Quantitative data was frequently found to contain incomplete, contradicting, erroneous, inconsistent or misrepresentative information. Data collection methods and conducts appear to vary highly and hence distort an objective picture. Criticism further needs to be addressed to the Central Bank of Kosovo for lack of transparency. Official trade figures are publicized on the central bank's website but the latest available data on trade lays several years back. Other international institutions however, seem to know the current trade figures. Swiss Embassy in Kosovo (2017) states that the official figures for their report were made available to them by the central bank only upon request.

The scattered provision of data is another point of criticism for the availability of information. At least four ministries on the governmental level have competencies related to FDI, which allows for inconsistency and makes it difficult for investors to find essential information or points of contact.

The CEFTA Investment Report could have been a valuable source for this thesis as it would put the FDI figures in relative context within the region and as an additional independent source of information. The report will only be finished in September 2017 and no other information on previous research is made available to the public.

13 Further Research

Based on the literature research conducted for this thesis, there only is a limited amount of Swiss academic papers on the investment climate and conditions in Kosovo, despite a rather large portion of the population in Switzerland coming from that country and high investments in Kosovo from Switzerland. The thesis at hand therefore, aimed to contribute to a Swiss fundamental knowledge generation on FDI in Kosovo and should be seen as possible starting point for this field.

The qualitative approach for this thesis was conducted according to scientific ethics as it allows a broader view on the topic. As objective as the conduct aimed to be, perceptive influences can never be fully ruled out for qualitative methods. Further research should therefore include a balanced mix of qualitative and quantitative studies to allow more founded knowledge generation.

The thesis further captures a very broad picture of topics related to FDI in Kosovo. This approach was chosen as only limited Swiss academic research is available and a common understanding needed to be established. Further research must therefore focus on specific topics and investigate those in more depth, which only then will allow a holistic understanding of the whole context.

Further research should additionally seek to widen the extent of the scope by e.g. investigating measures for the development of the investment climate in Kosovo or the provision of preparative actions for investors from Switzerland.

14 Limitations

In order to give a comprehensible description of the investment climate in Kosovo, the thesis has presented a wide-ranging thematic for the factors analysis. The author recognizes that some topics covered have polarizing characteristics, either positive or negative, and has tried to give back as much of an objective and comprehensible picture as possible based on scientific ethics. Nevertheless, the thesis at hand can never present a complete picture of the investment climate in Kosovo as the content had to be prioritized.

Due to the frequent changes, including; structural changes, political shifts, legislative reforms, agreements, initiatives, strategies, etc., it was difficult to keep track from an outside perspective over their current status and potential impact on the investment conditions and related fields. The author has tried to consider the latest information available but it cannot be fully guaranteed that the sources represent the most recent information or that information remains applicable.

The lack of independent sources, latest figures that are not made available to the public as well as inconsistently publicized data and too superficial data made it sheer impossible to investigate quantitative features that could have served the research objective.

Given the rather short time frame and the research period set during summer, potentially valuable information was not available. Such information mainly includes interview partners being in vacation or not having capacity due to absences of coworkers and publications of working groups scheduled to be released after summer.

Cultural differences were experienced during the course of finding relevant interview partners. The revelation of the intention behind the interviews being for study purposes made a significant share of potential interview partners contacted give less priority to meeting the author or answering questionnaires.

The investment profile represents a suggestion based on the findings. Successful investments in the past, which do not fit these profiles, have proven the prospect of success beyond the characteristics proposed.

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IV. Appendix

1. Transcripts

1.1.Conference: Kosovo Investment and Trade Conference 2017 – 14.06.2017 (Abstract)

The abstract below is the transcript of Besian Mustafa, CEO of KIESA.

“Up to now we gave you a general overview of where Kosovo is and what services the chamber of commerce but also we from KIESA can provide once you decide to come to Kosovo. We have a great location in southeastern Europe and again, with the free trade agreement with the EU, you can cheaply produce in Kosovo and then export your good to the rest of the EU and of course to the Middle East, Africa and beyond.

Kosovo has two official languages and English is almost an official language. Population is close to two million and what is important, we use the Euro as the official currency. Now I know, Switzerland uses the Swiss franc because I always say to other European countries that there is no exchange rate risk and in your case neither because of the stability of the currency.

Access to the EU: a flight to Zurich takes just over two hours. Two hours and thirty minutes to sea ports in the region and then we have direct flights to most major cities in Europe. What’s most important once you decide to invest in Kosovo, is that you don’t have to worry about language barriers. Your neighbors speak English, your children’s nanny speaks English, your children’s friends speak English, your taxi driver speaks English, the waiters at the restaurants and bars speak English, your children’s teacher speaks English. Kosovo also has complete educations offered in English, from kindergarten to master’s degrees. So, if you or your management team gets homesick, you can easily fly home to Switzerland.

The World Bank, surely as you know, has an index for doing business for most countries around the world and Kosovo, for the past 6 years has improved 57 ranks. We are the 13th in the world for starting or establishing a business. We are 33rd for registering property. By constitution Kosovo is a free market country. Getting credit: 20th in the World. We have large international banks in Kosovo, such as Raiffaisen from Austria which can provide you your credit to fund your investment project.

In terms of legislation, we have two important laws. The law on foreign investment, guarantees equal treatment as domestic investors and also the law on strategic investment which was passed only a couple of months ago, which for a threshold of capital investments and new jobs created allows foreign investors, such as Swiss companies, to go into direct negotiations with the Kosovo

government and the responsible ministers and signing a deal with the prime minister of Kosovo, so that your contract with the government of Kosovo has the highest seal approval in the country. This gives highest priority for your deal, your investment project with government and the prime minister of Kosovo.

In terms of financial investment promotion and protection agreements, we have contracts with Germany, the UAE, Austria and of course Switzerland, Turkey, the Benelux, Albanian, Macedonia and the US. The past 10 years, Germany has been the highest foreign investor in Kosovo but Switzerland ranking second highest FDI in the country with 389 EUR mn in the past 10 years. Is that enough? Actually no, we would like to see more Swiss companies coming to the country and making Kosovo their next destination for investment projects, where they can produce cheaply in Kosovo and sell to the EU, through the SAA.

Concerning promising sectors: mining, energy, construction, infrastructure, wood processing, IT, textile, leather processing. In terms of agribusiness we have just under 600'000 ha land contributing to 13% of the GDP and making up 20% of our exports, this is one of the main areas where we invite companies to invest in the country. Dairy products, fruit and vegies, meat products, wine making and other beverages are further promising sectors.

Minerals, just under 15 bn tons of ignite in the country, making it the 5th largest resource in the world but also other minerals like aluminum, copper, zinc, etc. In terms of energy, the main plant is a 1 bn US dollar private investment. Other energy forms include wind, solar, biomass and thermal.

Infrastructure, I want go through all details but it has just under 4000 companies in this field and about 20% of newly established countries every year are in this sector. Wood processing is one of the fastest growing activities in the country with about 53 mn cubic meters of forest land. 75% of all wood products in Kosovo are final products, so we have manufacturing capacity and knowledge from raw material all the way to final products. We mainly export the Germany, Austria, Switzerland and neighboring countries in the Balkans. ICT, we have an average age of 27 years, most of them speak English and also because of the diaspora, a lot speak German, so the business outsourcing sector has been growing rapidly in the country. Around 20'000 people are employed in German speaking business outsourcing services and many more thousand in English business outsourcing. Textile and production. I'm not going too much into detail here but we have a lot of possibilities thanks to the privatization processes. These sectors have highly skilled but very cheap labor and we want foreign investors to unlock new technologies and knowledge there.

I would like to close by affirming once again to you that KIESA as a government agency together with our partners, will provide you with our services and knowledge for your investment in Kosovo."

1.2.Interview: Stefan Butscher & Arjeta Byci-Lleshi – 23.06.2017

Interview details

Organization: Swiss Cooperation Office Kosovo

Roles: Regional Adviser Economy and Employment & Senior National Program Officer

Method: Face to face interview, Prishtina

Topic: Economic and Employment Support, Economy of Kosovo

Citation: (Butscher & Byci-Lleshi, 2017)

What is the function of the institution that you are representing?

This is the Swiss cooperation office, which is part of the embassy. Here we represent, steer and guide the projects of SDC [DEZA], SECO and partially SEM [BFM].

The two of us are in the economic division and are responsible for identifying projects, assigning them, going through the planning processes, approval, steering, monitoring, closing and other tasks around the projects. We identify problems and initiate projects. Currently we have three flagship programs: “Enhancing youth employment”, with which we try to bring more young people into employment, “Promotion of the private sector employment” and the third one concerns investment climate promotion.

What was one of the biggest success in your domain?

We always work in the system level and not on regional level. So, for example with the ministry of education we have recently formed so called industrial boards together with the university in Prishtina. For each faculty, they now have a committee consisting of faculty members, people from the ministry and quite a large number of participants from the private sector. There they discuss concrete issues from the IT sector or electronic sector where they for example raise concerns for example: “we don’t find people with the right skill set”. So, in those industrial boards they discuss what needs to be adapted in the curriculums to fight those concerns.

Can you tell me your impressions of the current economic situation here in Kosovo?

The economy of Kosovo is growing steadily at 2 to 3% per year. This is mainly achieved due to the internal consumption, the remittances and donors support from abroad. So, Kosovo does not have a very stable development because it’s not based very much on local production. Unemployment is one of the effects that results from the underperformance of the economy, this is why unemployment stands at 35% for overall and 55% for the youth. Now why we focus on enhancing youth employment, because this is a problem for the whole society because you know we also have a demographic issue as a very young country. We have 50% of people below 30 years old so even if the economy is growing we cannot generate this number of new jobs. The private sector is very young, which is mostly defined by SME and especially family businesses.

What is the outlook of the Economy in Kosovo?

Economy is growing, sometimes more and sometime less but it is growing. The positive signals are that the private sector is winning and expanding – in terms of local investment, I'm not talking about FDI because the main FDI came from the privatization process. But if we talk about the FDI the highest volume is achieved by the Kosovo diaspora that opened businesses here.

What are the impacts of the recent political activities on the economy?

That really depends on how long it is going to take for a functioning government to be in place. If that starts in a reasonable time, let's say 2-3 months, I think there will not be a huge impact but if it takes longer like for example last time, where it takes like 6 months or longer then maybe we will have a gain a wave of people leaving the country. It's too early to talk about that but for now I would say that the mood is rather positive. There are different modalities, different coalitions that could emerge. But for now, its wait and see. The people are not going to stop consuming until a new government is formed. For currently it's like that but if you refer to the previous situations, where we truly had political malfunctioning, then yes that definitely impacts foreign investments. Kosovo does not have a particular competitive advantage as an investment location compared to the region and if there is political instability additionally, investors are deterred from coming here.

But you don't think that the recent shift of powers following the elections, where "Vetëvendosje" increased its voting significantly will have an impact on economy?

A change was long awaited because everybody knows that the things on the political level are not working as they should. And now for the first time we have a change and that makes people optimistic, which in turns stimulates economy. But things could also go worse if for example the old structure or power is coming back in one way or the other, this will lead to added frustration. The desperation might then lead people to go to Switzerland or elsewhere again as it was the case in 2014, when they waited for 6 months and the same people came back to power again as before. But we also need to see the other factors why the previous structure, mainly PDK, came to power. That was also pushed by the international community because they were guaranteeing a certain level of stability. After the war, the international community wanted to bring back stability and this is why they worked together with those who had things under control. This mindset is changing now a little among the domestic population and also among certain quarters of the international arena, which is why the change was awaited. I think Vetëvendosje is becoming a little bit more "Salon fähig" because they are developing with larger voting base. Because they have also very bright people there and they will be able to reach good positions soon.

Which are the most important partners that you work together with?

In our field for sure the ministry of education, concerning the active labor market we work together with the public employment services under the ministry of labor and social welfare. For the private sector, it's the ministry of trade and industry under which is KIESA who participates in the forum. Depending on the projects, we also have collaborations with other institutions such as the ministry of economic development, the ministry of youth and sports but also on local levels with smaller institutions. Then in the private sectors, depending on the sector of course, we work together with both, associations and companies. But also concerning that, the associations or chambers, they are here but they are not that strong. They are sometimes good at for example lobbying but other things not so strong.

What is an example for a very strong association here?

Kosova manufacturing club, STIKK which the association for information and communication technology and as mentioned the chamber of commerce depending on the activity.

In which sectors do you see most potential?

The sectors that we work in, otherwise we would not work in there. ICT with its outsourcing opportunities, food processing because of the whole import, in general every sector that would substitute the import but also, we already have successful examples of exporters. Tourism as well I think is starting, of course right now there are not the big numbers yet in terms of employment and revenue but there is potential as in the whole Balkan region. Then we also often look at smaller sectors in the region, like wood processing (furniture and manufacturing) that are represented in Serbia and Montenegro. Also, Italian lights for example, they are not produced in Italy anymore but in South-West Serbia and things like this are also starting here. Another sector that comes to my mind is metal processing and high precision. There are already some companies here also Swiss companies who work in this field. Bringing raw metal to Kosovo is quite easy with the coast of Albania nearby. Just yesterday someone told me about a Start-up in Ferizaj, that brings watch cases here for finishing and polishing and then exports it back to Switzerland.

What is a sector that has not much potential here?

From an investor point of view, you should not only look at which sector is promising, but also who is represented there. A sector for example that is not doing that bad is the construction sector. But as a foreign investor I would not go into this sector because there work powerful people there that control this sector almost with an oligopolistic structure. And this is also an advice that we often give to potential investors, to not only look at which sector is promising but also who are the players in that market. We know also of a foreign start-up from Syria who came here and started to produce good quality potato chips, but he was not recognizing who was controlling the trade import of potato chips so he never was able to take-off. A threat in general, the rule of law is not yet very strong here, so what you define in a contract is less worth than the relationship that

the two parties have. This is why they tend here to sign contract with people that they know from university, friends or even relatives. Because seeking justice in court can take very long here and if you have a relationship with the contract partner, that is an additional security component.

What is the general Swiss-Kosovo relation of collaboration and in which direction is it going?

In terms of trade, Kosovo is importing a lot from Switzerland and I don't think that it is going to change a lot in the near future because the level of service cannot balance trade at this moment. There is a close cultural and social tie not least because of the remittances but also due to FDI. Compared to other donors we also have not faced any major budgetary cuts for cooperation projects in Kosovo.

Why is there actually a very huge trade imbalance?

It's a normal phenomenon, Kosovo has a very low base of production even on its basic needs such as food we are only producing 30% for ourselves. Kosovo's job is first to substitute for imports and then they have a potential to start to export and restore trade balance. There are many factors for the low export volume including politics, etc. but also continuity and reliability. An importer in Switzerland in Migros for example, wants to make sure that they have continuous supply and not occasionally a container because the factory has not the capacity to produce as much as expected or there are new obstacles from politics side. Why it is imported so much from Switzerland in particular I cannot say, I'd need to check what is actually being imported.

What makes Kosovo a good place for FDI?

Labor costs, close proximity to EU markets. Things that you can find within the region as well but labor costs are still a little cheaper here. It has also become a safe country to live.

Do you think the currency is also a positive aspect?

Yes, it gives a certain stability and it is easy to exchange with Swiss francs.

What makes Kosovo an unattractive place for FDI?

Kosovo is small market. It has 1.7 million people and that is a key constraint of Kosovo and it is not well integrated in the region. And of course, its bad image. Skills as well, you have a lot of people, a lot of motivated people but they don't have the right skill sets.

What is the characteristics of the labor market here?

Of course, due to unemployment, employers have a big labor pool to choose from but in the end, you will always run into the same problems, that people might not have the skill sets that you require and you have to train them. We are also engaged in that through our active labor market projects. In collaboration with local institutions and agencies, we always compare the demand of

the market. For example, the labor market needs a lot of accountants, they don't find accountants, and you have thousand who finish the business school but they don't know what is the left and right side on the balance sheet. So, they have to bridge this gap with intensive, costly weekend courses. They come with the numerical skills, it's not that they are stupid, they are bright but they just weren't exposed to the right training. This works well but it's not a long-term solution if you have to retrain people upon graduation and this is why we try to fight this in a long-term basis with those industrial boards.

Are there any intentions to restructure the education system also after the poor performance in the PISA study?

There is a reset needed rather than a restructuring. Yes, there are intentions, there are policy papers, there is a strategy, there is a very good law but the implementation is missing.

There are very good plans but it needs a lot of work because you can't just invest in more modern facilities but you also heavily need to invest in teachers' training. It's a political problem.

Do you think that corruption keeps investors away?

Corruption is definitely part of the bad image. If this gets better in any way or not, depends on the new political scene.

I have worked in a number of countries and investors are always aware of corruption but they would often take it as a given factor wherever they invest, if it's in Algeria, India Kosovo or Georgia and so on. They would often tell us that they have taken this factor into account and know how to deal with it. But this is not a major problem, also the chamber of commerce, what they do good is this bottle neck survey where they capture the perception of businesses and there corruption is never at the top. Corruption might never go fully away but there again, if you as an investor do your homework and play by the rules by for example having employment contracts, social securities and work safety measures and then the labor inspector comes and you can show him everything, with this you give him no chance to ask for bribes.

Where corruption very often comes in is when dealing with authorities because of slow bureaucracy. Because business required like 39 licenses for registering and it took very long and then one person is not there and you need to wait until he or she is back. There corruption comes from the private sector because they don't want to wait that long. This is also something we have been fighting and now it's much easier and faster to register a business.

Do you think that the good development in the “ease of doing business ranking” of the World Bank is representing the opportunities in Kosovo?

The ease of doing business ranking shows more a frame work of business indicators. In some Kosovo scores very high, for example opening a business we now are 3rd because opening a

business requires 3 days now compared to 50 days 3 years back. But it will take some time until this will manifest somehow on economic performance. For the time being it creates a better business image and it makes more investors aware of Kosovo as a business location. However, it paves the ground for further development because the government works together with the world bank to develop the business environment and the index shows this progress.

Where can Swiss investors find support if they intend to come here?

A good general address is KIESA, they can help you in many ways and also the chamber of commerce. Then it depends on the sector as well when you need sectorial support. Also for business in general, the tax administration, Kosovo business registry, etc. Then when it becomes quite specific, there are more specialized service providers, consultants that are also specialized in sectors, this is by the way also a growing market, then there are recruiting services. Also, they often come to the embassy for general information and we can further advise them where to go.

Will you get involved when there are disputes such as, as part of a bilateral investment agreement that some countries have?

I'm not sure whether and in what form that exists but we usually don't get involved. Of course, if we see that some agency has not followed its cause or so the ambassador can write a diplomatic note but the embassy doesn't get involved. What we can do is providing a list of lawyers if the investor seeks legal advice.

Kosovo did a lot of investment in promoting the country as a business destination and did a lot on attracting investors but to retain them there were no mechanism. We have a project with the world bank where we focus on those after-care services. So that before they go to arbitrage there are mechanisms. The project includes the systemic retention of investors as part of after-care and the strategy for this will be launched by the end of the year.

Are there cultural differences that could make foreign investment difficult here?

Not that I can think of. Punctuality was an issue a while back but now it's quite good. Also, religion doesn't affect business here since its quite moderate. But in general, I don't think there are problems concerning this especially when you compare it with other countries.

How helpful or harmful can remittances be?

It's both. It's helpful to keep poverty low but it's harmful for innovation. It creates dependency and laziness. Some employees might not want to work for 200 euro a month, but there are people in Albania and Macedonia working for this amount, and why because they have an uncle or brother in Switzerland that sends him 250 per month. Unfortunately, this money is only used for consumption and not for investment and this is something that we cannot steer because it's their

money. Because the brother in Germany thinks it's okay to send 250 euro per month home even if his brother is not doing anything except for looking after the grandmother, then that is his choice and his value. Is it sustainable? I would say no, especially because of the demographic change. The ones that are sending remittances are getting older and will soon retire. Living on the pension in Switzerland is not so easy because you immediately get 40% less but living costs stay. That will impact the remittances flow heavily. And then in the long term the next generation of the diaspora, for example people in your age [pointing to author], their bond to Kosovo will be weaker and the next generation weaker again. It will not disappear immediately but already now its stagnating gradually and this will be a wakeup call for the people here.

1.3.Interview: Safet Gërxhaliu – 29.06.2017

Interview details

Organization: Kosova Chamber of Commerce

Role: President

Method: Face to face interview, Prishtina

Topic: Economy, International Trade and FDI

Citation: (Gërxhaliu, 2017)

Please describe your function and the function of the organization that you are representing.

My name is Safet Gërxhaliu, I'm president of the Kosova chamber of commerce. The institution celebrates its 5th anniversary. Our aim is supporting the private sector because we do believe that it is not possible for a state to promote stability and make faster integration processes with continuous development. We try to work in dual form, internally and externally. Internally to enhance as much as possible the private public dialog but always protecting the interest of the private sector. Externally to enhance cooperation and improve board cooperation. We are part of European partners network. We have more than 150 partnerships with chambers around the world and at the same time, last year we achieved full membership in the European chamber, we are a full member in international chamber conglomeration and many other notable institutions around the world.

Can you give me a brief overview of your perception about the economic development and outlook in Kosovo?

It's true that we are in the process of transition and the hardest process for a state is exactly this parrot. But I think it's time to put top priority in the country development, as the chamber of commerce we think that we have 5 objectives. All those objectives start with "E". It's, Europe, Education, Economy, Environment and Experience. I think all those objectives are linked together but economic development is very important for the future of Kosovo because only through economic development we can create political stability, social stability, we can achieve faster economic integration process but also, we can change bad image of Kosovo. That's the reason why for the chamber of commerce economy development based on education and rule of law is the top priority.

Can you tell me what the main drivers are that influence economy currently?

First of all, when we speak about economy we need to split economy from politics, it's a little bit hard for Balkans but I think it's time that we can do that because if we always this have this mix between these two actors then we will produce much more negative results than positive. But yes,

the future of Kosovo would be built on SME, in production and in education. I mean for the time being Kosovo is the only state in the region that is exporting cash money because if you are importing more than 90 percent for what the market has to offer, I think a small and poor country as Kosovo is supporting and financing the creation of jobs in other states. That's the reason why we need to work more responsibility with the private sector and to use it as a tool or a mechanism to create the jobs to create balance but at the same time to change the bad image and perception of Kosovo.

Do you think there is a positive outlook on that?

In my opinion, in the last three years we achieved some positive steps with the new government. Especially regarding the wonderful of the minister of finance, minister Hoti. First of all, it was reflected that in Kosovo we have [incomprehensible] fiscal discipline. Second, we stop so massive tender activities and I think based on the world bank, Kosovo was very well ranked in all those parameters. That's the reason why I think we need truly to build trust for the future but we need also to work with young people to be prepared to face the challenges of the private sector not only to think "hopefully they can find a job in the public sector".

What influence does the political situation have on the economy right now?

I'm not so satisfied because in Kosovo we are producing much more political agenda than economic agenda. When you produce a political agenda, you produce a past and for Kosovo the future is more important. The future of Kosovo should be built on economic perspective, in R&D, education and the private sector. I think it's time in which we need all together to work more for economy and not only to speak about economy.

What effects do FDI have on domestic economy?

Not only for Kosovo but in general, FDI are a very important player for economic development and social stability. When you compare states in the region, either Serbia, Macedonia, Albania, Montenegro, they are very aggressive to attract foreign investors but in Kosovo something like that is not happening. Maybe this is why we produce much more political agenda and past as a future. In this direction, we need to learn from best practice and to make much more as to ask them what to do in Kosovo. No one would come to Kosovo because they are in love with Kosovo or like the country. We need to be prepared for the investors and create a good environment and good condition. We have two very important aspects where we need to work as much as possible. First, it's the foreign investors but second, which is a very important pillar for economic development, is the old diaspora. But we are not so satisfied in this direction and we need to change our approach in front of them.

What is your benchmark, who is the best player in the region?

When you go to Serbia and see that for the time being you have around 3'000 companies from abroad, especially from Germany, Switzerland, Italy and Austria, I think it's something that we should look at as a provocation, but not only Serbia also in Macedonia, where one company creates more than 7'000 jobs. I think those examples we really need to think about and spend more time analyzing in which fields those are better than Kosovo and then we need to start to enforce our economic diplomacy on through that to present and promote opportunities to invest in Kosovo but in the same time to change the bad perception of Kosovo.

Where do you see the FDI development from the declaration of independence to today?

It's a situation where I thought it's going to be more. But in the last 3-4 years we have every year less foreign investors.

You mean less new investors (FDI inflows)?

Yes, less new and less in general.

So, companies are going away?

Absolutely, not only going away but also bypassing Kosovo. That's much more problematic, I mean last year we faced negative figures and that is very pity for us. But I do believe that the political level in Kosovo should understand that it's very important altogether to work in economic development. And when we discuss about economic development, the role of FDI is crucial and this is why we need to care more about investors from outside.

What measures are in place to promote FDI in Kosovo

There are different sectors and each sector has specific measures but in general I would say we first need to promote education and enforce rule of law. If we don't send positive messages in those two areas, we would talk about FDI but no one would come here. I am from the area of economy and I often get frustrated because everyone is speaking about economic crisis but no one is mentioning that the generator of the economic crisis is the legal crisis, we need to work in this pillar in order to be able to attract foreign investors. But as far as it concerns the attractiveness of sectors, we need to consider time dimensions, middle and long term. If you ask people in Kosovo they will all start to mention mining and energy sector. I think it's a wrong approach, because investments in those fields need much more time to develop. What is very important for us is agribusiness & food processing, metal & wood processing, contraction and production, IT and education but not academization of society in personal education or education centers.

What is the general strategy to further lay the ground for FDI?

The problem is that when we speak about strategy but the strategy is not there. But I think we first need to inform people on the political level about the importance of greenfield investment and

then to promote those opportunities. You see why for us as the chamber, the education is so important. And when we discuss the education we are not only talking about the young people but also to educated the people in the public sector that hold high positions.

What is your vision as head of chamber of commerce and how do you achieve it?

Generally, when we discuss the economic situation of Kosovo and the economic future I'm very optimist. Because for the time being I'm very pessimist and pessimists are the biggest realist and realists are the biggest optimists. I do believe that the political agenda in Kosovo will become the past very soon as you can see in regions and other states different changes and possible ways and I do believe that in Kosovo we have a new generation, people who think that economy is a tool to bring people together, to create better life and a better future. I also explain to my students that states within EU don't have too much law, it's more a ground for economic cooperation and exactly this economic cooperation brings people and buyers together and create a vision for the future. We need the same model for Kosovo: working for economy, develop economy and create a future.

Can you give me a brief ratio of the number of domestic and foreign members of the chamber of commerce?

We are an institution that is based on the law. The tax of legislation is European but membership is voluntary. I think we are an independent but poor institution. For the time being we have 7 regional chambers, 45 people working for us, we are part of 42 associations and we have around 16'500 members and I think based on those conditions we have a reason to be satisfied.

But for us the challenge is to support private sector and by enhancing the private public dialog we were able to produce a very strategic document, the "fiscal package nr.1" and we also prepared the 2nd package but based on the politic situation it was not possible to pass it through government, but I believe the new government will consider it and we will have also the 2nd package, which is very important to support the private sector with regards to production, to create facilities and remove barriers and maybe also to support the whole private sector to increase attractiveness for FDI.

Under the umbrella of the chamber we have a foreign investors council that support foreign investors. But members of the chamber are all domestic and mostly SME.

How do you represent the interests of your members other than purely public institutions?

We are full member of the economic council, full member of the national council for economic development, we have several activities where we involve the minister of finance, minister of trade and industry, minister of economy and development, customs Kosova and the tax administration. We also have other platforms to collect challenges and then in the up level with

the ministries we address those challenges. We have also many smaller tools to also enhance competition. When you speak to people they will often aspire for the political integration of Kosovo in Europe but there is no political integration without economic integration. Therefore, internationalization is very important, including: certification, standardization, licensing, quality management, etc.

What are the advantages for FDI in Kosovo?

Kosovo made positives steps in terms of infrastructure. Today we are having highways that connect us to Albania, Macedonia and Montenegro. And this year I believe the construction of the highway that connect Serbia will begin. Kosovo will then become a strategic point. Second, we have a huge diaspora outside and we need to create special packages to attract our diaspora. One other thing is also the tax regime in Kosovo, which is very much in favor of economic development and to attract foreign investors. But as the chamber of commerce we are not satisfied to say to investors “come because we have cheap labor force” I would instead say “come because we have good educated labor at reasonable price”.

Who are your most important partners?

Definitely the minister for trade and industry and within his organization the investment promotion agency KIESA. At the same time, we have a good collaboration with the ministry of foreign affairs especially with the department of economic diplomacy. Internally we are very active to incorporate all necessary actors to promote development as well as possible. We also have different partners that are sector specific where we mainly function as catalysts to bring business together or business with politics.

What are the major obstacle that hinder FDI?

As the chamber, we try to point out indicators and one is after care. Another big problem is enforcing rule of law, including corruption, bureaucracy, nepotism and all those dark sides of transition but all come together in rule of law. If we want to be attractive for foreign investors, we need to change perception and create new image but new image based on facts.

What major programs or measures aim to tackle these obstacles?

In this sense, the bureaucracy is one of the major problems. In this direction, we need to be active to fight it but how can we do that. The recommendation of the chamber was to create one-stop-shops, offices where foreign investors can solve their problems during the day and not having to go from door to door, ministry to ministry and institution to institution. We live in the 21st century, time for economy is money and no investor has enough time to lose money by going to all those offices and institutions and in the end to be disappointed.

Which sectors do you think are most promising?

For time being, agribusiness and food processing are very important in middle term but also metal and wood processing and construction. Mid and long term definitely energy and mining and also tourism. Especially after the process of privatization I do believe Brezovica [Ski resort] and other projects will be good generators of economic stability.

How easy is the access to skilled labor?

We address this problem every day. We need to stop academization. Second, we need to have market analysis about market needs because today in Prishtina we have around 23'000 people with bachelors and masters in banking and finance but how can we create a perspective for all those people. This is the reason why we need to restructure the education sector and we need to find a way on how to motivate people for the private sector because many feel that in the public sector they will get good pay and do nothing for it and it its time that the private sector becomes a priority. It's a perceptive problem, which can only be changed when the education sector is reformed, this is why we closely work together with the German chamber of commerce because we believe that the German and also Swiss education model [dual system] are very important and we should aim to transfer their experience to bring this concept to Kosovo.

What is the readiness of infrastructure?

I think we made good steps with the fiscal packages, which eliminates barriers for importing technology and production lines to Kosovo especially with regards to water supply and diary production we made good progress.

How easy is it for foreign entrepreneurs or managers to settle here?

We have the "sono aci" committee which aims to harmonize legislation with regards to this and already now foreign investors have the same position as domestic investors and this should be used to further attract investors. Today, when you go to the agency for business registration you will find many companies from outside but we want to have more active companies from outside and not only registered. KIESA can help a lot for settling but still today it's not enough done for attracting foreign investors.

If half of the remittances that are sent from abroad would go into investment instead of private households, what would the economy in Kosovo look like?

First of all, our diaspora is not suitable to be regard as a matter for financial perspective. I think the potential of our diaspora is much higher and much bigger than money. We need education, culture, work discipline and we need to use those people as ambassadors of development. And

secondly, it's not true that our diaspora is supporting our economy with 600 million Euro per year, because they are sending much more money in different ways and the value is more realistically 1 billion Euro. I believe it's time to change this approach, this form of sending money. We need to have idea, R&D, start-up centers to make ourselves less dependent and use this capital to develop our economy. For the time being, the budget is going for import but at the same time money from our diaspora is dedicated for export of cash money in order to import goods to Kosovo. This is the reason why we need to work closer together with them so that this money comes in the forms of project with collaboration of the government. There are many Kosovans in Germany, Switzerland, etc. that work in international companies or banks, etc. we need the experience of those people to create a new vision and expertise here. But first we need to create conditions for them so that they have something to work with here.

What is the best strategy for foreign companies when they consider to come here?

When you look at the market, you see that we are importing all of the goods from outside and this is a good point to start for a foreign investor. The company will find a big market demand and a relatively low domestic competition. And it will also benefit the country very much as it will shift the trade balance apart from all the other positive effects. It's not possible to create sustainability by only exporting cash money. This is why modern heroes of Kosovo will be found in private sector.

1.4. Interview: Joachim Lichtenhahn – 15.08.2017

Interview details

Organization: Sojevë Manufaktur SH.P.K. (in formation)

Role: Managing Partner

Method: Face to face interview, Zürich

Topic: Investment Location and Business founding

Citation: (Lichtenhahn, 2017)

Please describe your person and the function of the organization that you are representing.

I'm Joachim Lichtenhahn, I have a degree in environmental engineering and before that I completed an education in hospitality management (Hotel Fachschule). I'm still employed at the Hotel Jakob, which is owned by Patrick Honauer and he has a very large network of businesses, foundations, everything. One foundation is in the field of the dual system for youth that have difficulties to integrate in a work environment. And yes, I work for him in different aspects but in for this project I am a managing partner. He has a lot of projects and investments going on, like right now in Nepal and after that he is going to Portugal and I'm sure the next project will come when he gets back. But I want to focus on Kosovo right now. The company in Kosovo is going to be a SH.P.K. (limited liability corporation), this is how its listed in the founding document. The company is going to belong half in Swiss hands and half in Kosovo hands, meaning that Patrick and I own a quarter of the company each and on the Kosovo side it is also a quarter each for the owner of the land and the production manager.

So, it's like an international joint venture?

Yes, if you will. We just said that it requires a mutual participation. Because there are 2 important factors: Half should belong to Switzerland because, without the distribution market in Switzerland we wouldn't do anything there and the other half should be in their hand so that the people working there participate and own part of the company and that's why we decided on this model. The details of our production are not fixed yet but in general we do everything around fruit processing, including drying processes and also oils that we intend to produce and also other conservation methods. But right now, only the drying process is operative, with the oils we will start at the end of the vegetation period, around November or December. And for the rest we are still figuring out what could work. We also have a food engineer, with whom we will plan the product development in the next few weeks. He will also take a look at our production from time to time to ensure the quality.

Is that a food engineer from Kosovo?

No, it's a person from Switzerland. The problem is that the know-how is somehow missing there for these kinds of works. There was a large fruit and vegetable processing production in Ferizaj

during the Yugoslav times but today this knowledge has become quite rare and many of these people that knew this field live abroad today. This is why we had to import know-how.

The graduates or young professionals of today cannot do this kind of work?

Well it is difficult. I mean, to my knowledge there are no studies in Kosovo for Food engineering. I one time had a meeting at the faculty for agriculture, which turned out that it was no real faculty, it was more only one professor of economics who is interested in agriculture. And the closest one, is in Tirana, where a faculty for agriculture exists. But also in this aspect we work together with a support NGO and we will see how the collaboration will look like.

How did the idea arise to do such a thing and how did you decide to do that in Kosovo?

My partner Patrick was the teacher (Lehrmeister) of Besnik, whose family owns the land there. Patrick and Besnik have kept contact since around 10 years. And around 3 years ago they were together in Kosovo. One part of the land is used by the US troops and another small part is used by a farmer from the village but the rest was unused. They thought it's really pity that the land is unused so they wanted to do something with it and out of that we developed the idea to do something there.

How much land are we talking about?

It's difficult to say, we always speak of 5 hectares but we have different offers to use more land. I just recently spoke to somebody from Liestal, BL who owns land there, also the land that we are using now is part of even more land and it belonged to the grandfather, so we could easily use other parts of the wider family land as well. But we focus on the 5 ha that we have right now and will potentially buy more land in the future. It doesn't make much sense to start to grow strawberries and raspberries there because that is grown a lot and we focus on specialties to not compete with the locals there.

How have you evaluated the demand for processed fruit?

The plan right now is that we grow and process in Kosovo and then sell and distribute in Switzerland but later we also want to sell parts of our products locally, that is a personal wish of ours. You have good fruits there and then everything is imported from Turkey or so but at the same time you have good trees that grow nice apples but nobody picks them because they are not processed anyway. And they are not wrong, apples are sold for 1 Euro per box, processed apples are much more worth but there is no knowledge on how to do it.

It's not that we think we can make good money by offering locally but we find it absurd to just export everything we have there. We have talked to different shops and markets here, also through the connections of Patrick, and they seemed interested.

You see an untapped potential in these regards?

Yes totally. There is a feeling that something is happening. I personally felt that 5 years ago nobody is interested in agriculture and now you see bigger investments in agriculture. One investor from Germany, close from us has started an aronia (chokeberries) production, the superfood berries, and more things that happen in agriculture. Also from the government we see more efforts in agriculture, which we much appreciate.

How do you see that?

From different discussions that we had with them, but also more concretely we were offered land if we use it and create jobs. This usually happens for bigger scale projects but we received this offer too.

How was your image of Kosovo as an investment location before you went there and how has it changed?

Well in my case it's a little bit special, because the first time I was in Kosovo was in 2005 so I knew it a little bit but more from a tourist side. But really changed it hasn't also from an investor point of view. What I started to realize is that there comes a lot of money from abroad. Factories are being build and never operate. I recently spoke to someone and he told about a guy that received a huge grant from SECO to build a large fruit deposit there. The deposit has not been in operation for 5 years. I often feel that people are very open for investments but the know-how is missing. I heard of one person who wanted to set up a cattle farm but had no experience in cattle breeding. To invest I think it's no problem but to find the right know-how is. People there are very open to investment, proof for that is that everybody knows who we are and what we are doing but haven't actually started yet.

Did you have any problems for business registration?

Registration was very easy. We had a local lawyer, she did everything for us and everything is ready. In September, we are going to complete the last step by signing at an institution in Prishtina. Registration in Kosovo is actually easier than in Switzerland: You don't necessarily need paid-in capital, which actually would be good for the business, you receive templates from institutions and then only need to fill in the blanks.

Was there anything that was complicated during your business set-up?

Interestingly, the handling with authorities was not even that complicated apart from 2 exceptions. One thing was especially concerning our business because we are in close proximity to the NATO/US military base. There we needed to get a permit for business and had to describe what we are doing and hand in our plans, etc. that was a procedure of a couple of weeks and not too complicated. And the other thing is that we wanted to set-up a photovoltaic system and that was quite complicated because you had to deal with different national institutions, electric provider,

municipal institutions, etc. and everybody said something concerning permits and procedures. In the end, we found out that there is a good company that can do everything concerning photovoltaic systems there and has the best network for it. That was the most complicated part.

Is that a consultancy or a photovoltaic provider?

The provide full services on photovoltaic systems, from construction to modular set-up, permissions and maintenance, which is a very good service. That was kind of an absurd thing, in Switzerland you just have to hand in a building application and do a short remuneration procedure with the provider. In Kosovo, you need to register your system at a state institution, you don't need a building application or remuneration and those things are a little bit different than in Switzerland. If we would have done everything on our own it would have taken around 3 months but through this company it took us 1 week.

How are you perceived as a foreign investor in Kosovo?

In general, very positive. At the municipal institutions in Ferizaj they are very nice and take their time with us and help us with our questions. A thing is also that I'm often surrounded by Kosovans there and I talk German or French to them and they talk in Albanian to the authorities, which removes the language barriers.

So, it makes it easier if you are assisted by locals or people that know the language?

Yes, I think I wouldn't have dared to do something there on my own. It works of course, I met also many investors from Turkey who pretty much do everything on their own. But it's more efficient if you have somebody with you who understands you also culturally and the Albanian language.

How far are you with your business and what are the next steps?

We will be signing soon, which is a matter of when we have time altogether. The construction is completely planned and we are in the pilot phase which is done in an improvised facility. Now it's about building a 100 sqm hall, which is planned to be modular with different devices, equipment, cooling options, water connection, etc. And another part is the plantation of the initial 5 ha. There we will first conduct the evaluation of what we finally will produce and that should be done until November so that we can press our first oils.

How difficult is it to acquire equipment and machines for your production there?

The first machine we have from a known producer Switzerland, we bought a used device but works very properly. But the aim to get as much equipment from there and not to import everything, especially for the plantation. I have been to different places in Kosovo, where you can find many things at more affordable prices. There you just need to be cautious about the quality because you have also a lot of import products from China. It's only a few special devices that we will have to import.

How is it with labor force, have you had difficulties to find the right skills?

Most of the work is fairly easy. I would say after one week you know most of the jobs there. Of course, we will have to gain experience for ourselves as well but this will come with time. What is also interesting is that for the processing works we have only women due to cultural reasons also. Because apart from planting, carrying and washing, men do not cut or process fruits. For us Swiss its quite different that you have such a clear division of work but I mean we just got used to it and we also find it very effective this way because both sides to very reliable work.

Did you ever have to deal with corruption or bribery?

Yes, but only marginally. Last time I had to bribe a police officer from the Macedonian border with 10 euro, because there was a tipping error on our vehicle insurance card and we were about to get late for the plane.

And in connection with your business?

No so far not. If it comes, it will come at a later stage everybody tells me, when you get into the focus of the government or some officials. Our advantage is that we are very good connected in the municipality, with the president of the city and the mayor and I think due to that we can avoid a lot but of course we cannot fully rule it out. You never know what happens if there is a change of government or so.

Have you ever required or looked for institutional help?

We had contact with KIESA or Swiss institutions, like SECO connect, etc. already but we didn't have any collaboration or support so far because we didn't need any help so far. But we might get back to any of them if we concretely think about larger investments and business development, for example if they could give us access to capital that we otherwise wouldn't receive. But at the current scale it's more of extra work than help with all the reporting, etc.

What about informative services?

To be honest we haven't looked at it to closely what other services might help us. What I have done is browse through the website of KIESA where you also have different reports and information but apart from that we surely should look at what institutions could offer services that would help us.

Where do you want to go with your business, what is your target?

The target is to establish a full business network and we in it as the processor in Kosovo and that would create added value in Kosovo. We have 1000 ideas in which direction we could go to and now it's about narrowing it down. It would be nice if we could have like 20 permanent employees and a lot of suppliers, which all together could have a small economic impact that would be our

vision. We also have different ideas with franchising, local shops, etc. The full picture will become clearer step-by-step and I think it's the only right way to let everything evolve and develop instead of trying to push everything very fast. It would be an illusion if we say that we want to see our product in 2 years in Coop.

You mentioned the added value in Kosovo, how do you want to achieve this?

One thing is surely that we solidly try to educate people there by providing apprenticeships. We are in close contact with the institution for international cooperation in Germany who are building the first apprenticeship school (Berufsschule) in Ferizaj. And that is one thing, that we say we offer education in the area of food processing and potentially also in the area of agronomy.

What hints can you give to Swiss investors who intend to invest in Kosovo?

One thing I have already mentioned, to work with locals. It's very valuable because you can form a network quite rapidly and the other thing is to continuously develop the business and have a long-term view in mind instead of trying to push everything. Of course, this can also work to go for short-term but it is connected to higher risks, and Kosovo is not ideal to invest risky also with regards to the less stable environment than in Switzerland.

2. Additional Documents

2.1. Kosovo Economic Key Figures

Publicized by World Bank Group (2016) including figures from 2012 to 2015 and the forecasts for the three following years.

KOSOVO	2012	2013	2014	2015	2016	2017	2018
Real GDP growth (percent)	2.8	3.4	1.2	3.9	3.6	3.9	3.7
Composition (percentage points):							
Consumption	2.7	2.3	3.8	2.2	4.2	2.7	2.6
Investment	-4.5	-0.1	-1.4	2.8	1.7	2.3	2.7
Net exports	4.5	1.2	-1.2	-1.1	-2.4	-1.1	-1.6
Exports	0.1	0.4	3.0	0.6	0.8	0.9	0.6
Imports (-)	-4.4	-0.8	4.2	1.6	3.2	2.0	2.2
Consumer price inflation (percent, period average)	2.5	1.8	0.4	-0.5	0.0	0.3	0.5
Public revenues (percent of GDP)	25.9	25.2	24.4	25.4	26.9	26.6	26.6
Public expenditures (percent of GDP)	28.5	28.1	27.0	27.3	29.4	28.3	28.3
Of which:							
Wage bill (percent of GDP)	8.1	7.9	9.1	9.1	9.2	9.2	9.4
Social benefits (percent of GDP)	3.7	4.2	6.1	6.9	7.4	7.4	7.6
Capital expenditures (percent of GDP)	10.8	10.1	7.5	7.4	7.0	7.7	7.6
Fiscal balance (percent of GDP)	-2.6	-2.9	-2.6	-2.1	-2.5	-1.7	-1.4
Primary fiscal balance (percent of GDP)	-2.4	-2.5	-2.4	-1.8	-2.2	-1.5	-1.2
Public debt (percent of GDP)	8.2	9.0	10.6	13.1	14.3	15.9	17.3
Of which: External (percent of GDP)	6.7	6.1	5.9	6.5	6.5	6.4	6.2
Goods exports (percent of GDP)	5.6	5.5	5.8	5.6	5.2	5.3	5.4
Goods imports (percent of GDP)	46.3	43.1	42.8	42.1	44.4	45.3	46.6
Net services exports (percent of GDP)	6.4	5.9	6.0	6.1	7.5	7.9	8.3
Trade balance (percent of GDP)	-34.3	-31.6	-31.0	-30.3	-31.6	-32.1	-33.0
Remittance inflows (percent of GDP)	12.0	11.7	12.5	13.0	13.4	13.8	14.3
Current account balance (percent of GDP)	-7.5	-6.4	-7.9	-9.1	-11.4	-12.6	-14.2
Foreign direct investment inflows (percent of GDP)	4.5	5.3	2.7	5.6	3.7	4.5	5.2
External debt (percent of GDP)	30.0	30.2	31.2	33.4	33.9	34.6	35.1
Real private credit growth (percent, period average)	5.8	1.9	3.0	7.3	n.a.	n.a.	n.a.
Nonperforming loans (percent of gross loans, end of period)	7.5	8.7	8.5	6.2	4.7	4.2	3.9
Unemployment rate (percent, period average)	30.9	30.0	35.3	32.9	n.a.	n.a.	n.a.
Youth unemployment rate (percent, period average)	55.3	55.9	61.0	57.7	n.a.	n.a.	n.a.
Labor force participation rate (percent, period average)	36.9	40.5	41.6	37.6	n.a.	n.a.	n.a.
GDP per capita (US\$)	3,600.7	3,877.2	4,053.6	3,560.9	3,623.8	3,683.4	3,728.7

2.2.Swiss-Kosovan Trade relations 2016

Figures obtained from Swiss Embassy in Kosovo (2017).

TN103: Schweizerischer Aussenhandel nach Ländern und Kapiteln											
Periode: Januar bis Dezember 2016											
Land: 139 Kosovo											
* = Veränderungsrate / Anteile nicht berechenbar											
** = Veränderungsrate > 999,9 %											
Total 2: Ergebnisse inklusive Gold in Barren und anderen Edelmetallen, Münzen, Edel- und Schmucksteinen sowie Kunstgegenständen und Antiquitäten.											
Total 2		Import in Mio. CHF				Export in Mio. CHF				Saldo in Mio. CHF	
		2015	2016	+/- %	Anteil	2015	2016	+/- %	Anteil	2015	2016
Total		10.73	17.24	60.6	100.0	24.56	29.42	19.8	100.0	13.82	12.18
01 - 24	Landwirtschaftliche Produkte	0.99	1.44	46.0	8.4	0.82	1.31	59.8	4.5	-0.17	-0.13
25 - 26	Mineralische Stoffe	0.01	0.01	-6.8	0.1	0.00	0.00	-62.4	0.0	-0.01	-0.01
27	Energieträger	0.02		-100.0	*	0.39	0.37	-5.7	1.3	0.37	0.37
28 - 29	Chemische Grundprodukte	0.00		-100.0	*	0.00	0.06	**	0.2	0.00	0.06
30	Pharmazeutische Erzeugnisse		0.00	*	0.0	5.95	7.51	26.3	25.5	5.95	7.51
31 - 32	Düngemittel, Farbstoffe, Pigmente	0.08	0.13	64.4	0.8	0.61	0.47	-23.6	1.6	0.53	0.34
33 - 34	Schönheitsmittel, Waschmittel	0.00	0.00	-76.5	0.0	0.12	0.16	28.1	0.5	0.12	0.16
35 - 38	Stärke, versch. chemische Erzeugnisse	0.02	0.02	31.0	0.1	0.27	0.26	-1.4	0.9	0.25	0.24
39 - 40	Kunststoffe, Kautschuk	3.10	4.14	33.7	24.0	1.25	1.01	-19.2	3.4	-1.85	-3.13
41 - 43	Felle, Leder, Lederwaren	0.00	0.00	-87.6	0.0	0.01	0.00	-68.5	0.0	0.01	0.00
44 - 46	Holz, Kork, Flechtwaren	0.72	1.06	47.4	6.2	0.99	1.20	21.9	4.1	0.26	0.14
47 - 49	Papier und Papierwaren	0.06	0.10	67.9	0.6	0.07	0.11	55.5	0.4	0.01	0.01
50 - 63	Textilien und Bekleidung	0.29	0.18	-37.8	1.1	0.60	0.65	7.2	2.2	0.31	0.46
64 - 67	Schuhe, Schirme usw.	0.01	0.01	-27.6	0.1	0.00	0.03	659.4	0.1	-0.01	0.02
68 - 70	Waren aus Steinen, Keramik, Glas	0.84	0.87	3.8	5.1	0.25	0.36	43.5	1.2	-0.59	-0.51
71	Edelsteine, Edelmetalle, Bijouterie	0.00		-100.0	*	0.02	0.00	-77.6	0.0	0.02	0.00
72 - 83	Uedle Metalle und Waren daraus	1.86	2.97	59.5	17.2	0.80	0.82	2.5	2.8	-1.06	-2.15
84	Maschinen (nicht elektrisch)	0.28	0.60	111.0	3.5	4.31	3.86	-10.5	13.1	4.02	3.26
85	Maschinen (elektrisch)	0.16	0.17	7.5	1.0	0.73	0.47	-34.8	1.6	0.57	0.30
86 - 89	Fahrzeuge, Flugzeuge usw.	0.19	1.37	621.3	7.9	5.54	8.98	62.0	30.5	5.35	7.61
90	Opt. / medizin. Instrumente	0.01	0.01	47.9	0.1	0.14	0.15	2.6	0.5	0.14	0.13
91	Uhrmacherwaren	0.00	0.06	**	0.4	0.09	0.20	126.9	0.7	0.09	0.13
92	Musikinstrumente	0.00	0.00	-63.0	0.0	0.00	0.01	68.7	0.0	0.00	0.00
93	Waffen und Munitionen			*	*	0.01		-100.0	*	0.01	
94	Möbel, Bettzeug usw.	2.03	4.02	97.8	23.3	1.22	1.10	-9.8	3.7	-0.81	-2.91
95 - 96	Spielzeuge, Sportgeräte usw.	0.05	0.03	-42.8	0.2	0.36	0.32	-11.6	1.1	0.31	0.29
97	Kunstgegenstände, Antiquitäten	0.00	0.03	**	0.2			*	*	0.00	-0.03

2.3. Median Age

The following list shows the median ages of all countries and their rank in global context (highest first) that are partially or fully located on the continent of Europe (CIA, 2016b).

Global Rank	Country	Median Age
1	Monaco	52.4
3	Germany	46.8
6	Italy	45.1
7	Greece	44.2
8	San Marino	44.2
9	Slovenia	44.1
11	Isle of Man	43.9
12	Austria	43.8
13	Andorra	43.7
16	Lithuania	43.4
17	Latvia	43.3
19	Liechtenstein	42.9
20	Croatia	42.7
21	European Union	42.7
22	Netherlands	42.5
23	Estonia	42.4
24	Bulgaria	42.4
25	Finland	42.4
26	Serbia	42.3
27	Spain	42.3
28	Switzerland	42.2
29	Denmark	42
31	Hungary	41.8
32	Portugal	41.8
33	Czechia	41.7
34	Bosnia and Herzegovina	41.7
36	Malta	41.5
37	Belgium	41.4
38	Sweden	41.2
39	France	41.2
42	Romania	40.7
44	United Kingdom	40.5
45	Ukraine	40.4
46	Poland	40.3
48	Montenegro	40.2
49	Slovakia	40.1
51	Belarus	39.8
53	Russia	39.3
54	Luxembourg	39.2
55	Norway	39.1
61	Georgia	38
65	Macedonia	37.5
68	Ireland	36.4
69	Cyprus	36.4
70	Iceland	36.3
71	Moldova	36.3
79	Armenia	34.6
96	Albania	32.5
107	Azerbaijan	30.9
110	Turkey	30.5
113	Kazakhstan	30.3
126	Kosovo	28.7

2.4.Regional Incentives Comparison

The following tables give information on fiscal, financial and other incentives compared to the region based on Pula, Loxha, & Elshani (2017).

<i>Fiscal Incentives</i>		
<i>Country</i>	<i>Profit tax incentives</i>	<i>Other fiscal reliefs</i>
<i>Kosovo</i>	-	<ul style="list-style-type: none"> - 0 percent import tariff on selected raw materials and a range of capital and intermediary goods and also pharmaceutical goods; - Tax and capital losses can be carried forward for up to seven successive tax periods; - Avoiding double taxation; - 0 percent customs duty on the import and export of certain capital goods, technology equipment, raw materials, agricultural production inputs, and services, production lines and machinery, equipment and materials used for electronic and media
<i>Albania</i>	-	<ul style="list-style-type: none"> - VAT exemptions on raw materials in clothing industry, manufacturing, energy, and goods for exploration/research of petroleum operations; - Fiscal losses can be carried forward for three consecutive years; - Corporate income tax exemption for cinematography productions; - Custom exemptions of imported machines and equipment's used for capital investments in energy sector; - Value Added Tax and Custom Exemptions in Free Zones
<i>Bosnia & Herzegovina</i>	Corporate profit tax exemptions from 1 - 5 years	<ul style="list-style-type: none"> - Double taxation avoidance agreements; - Exemption from paying VAT on the import of goods in free zones; - BiH offers a corporate income tax exemption for companies whose exports exceed 30 percent of total income (turnover); - Custom free equipment imported as part of share capital
<i>Serbia</i>	-	<ul style="list-style-type: none"> - Corporate Income Tax Holiday for 10 years for large investments and job creation; - Carrying Forward of Losses for 5 years; - The law on avoiding double taxation; accelerated depreciation of long term assets; - Income tax exemptions; - Value Added Tax and Custom Exemptions in Free Zones; - Custom Free Import of equipment, machinery, raw materials and semi-finished goods
<i>Montenegro</i>	-	<ul style="list-style-type: none"> - Avoiding double taxation; - VAT: 17%, 7% and 0% - Tax credits – The amount of tax due can be reduced by 25% of the amount invested in fixed assets for the respective tax period; - Incentives for non-developed areas: Corporate tax-free for the first three years for new founded companies in production sector - Custom Exemption Tariff: Import of raw materials and equipment
<i>Macedonia</i>		<ul style="list-style-type: none"> - Companies qualifying for the simplified tax regime with overall annual income s between 3 -6 million MKD, will pay 1% CIT - Preferential VAT Rate of 5% for agricultural machines, accommodation services, computers, food products, publications, pharmaceutical and medical devices, software, and transportation of persons - Technological Industrial Development Zones (TIDZs): personal and corporate income tax exemption for the first 10 years; - Exempt from payment of value added tax and customs duties for goods, raw materials, equipment and machines.

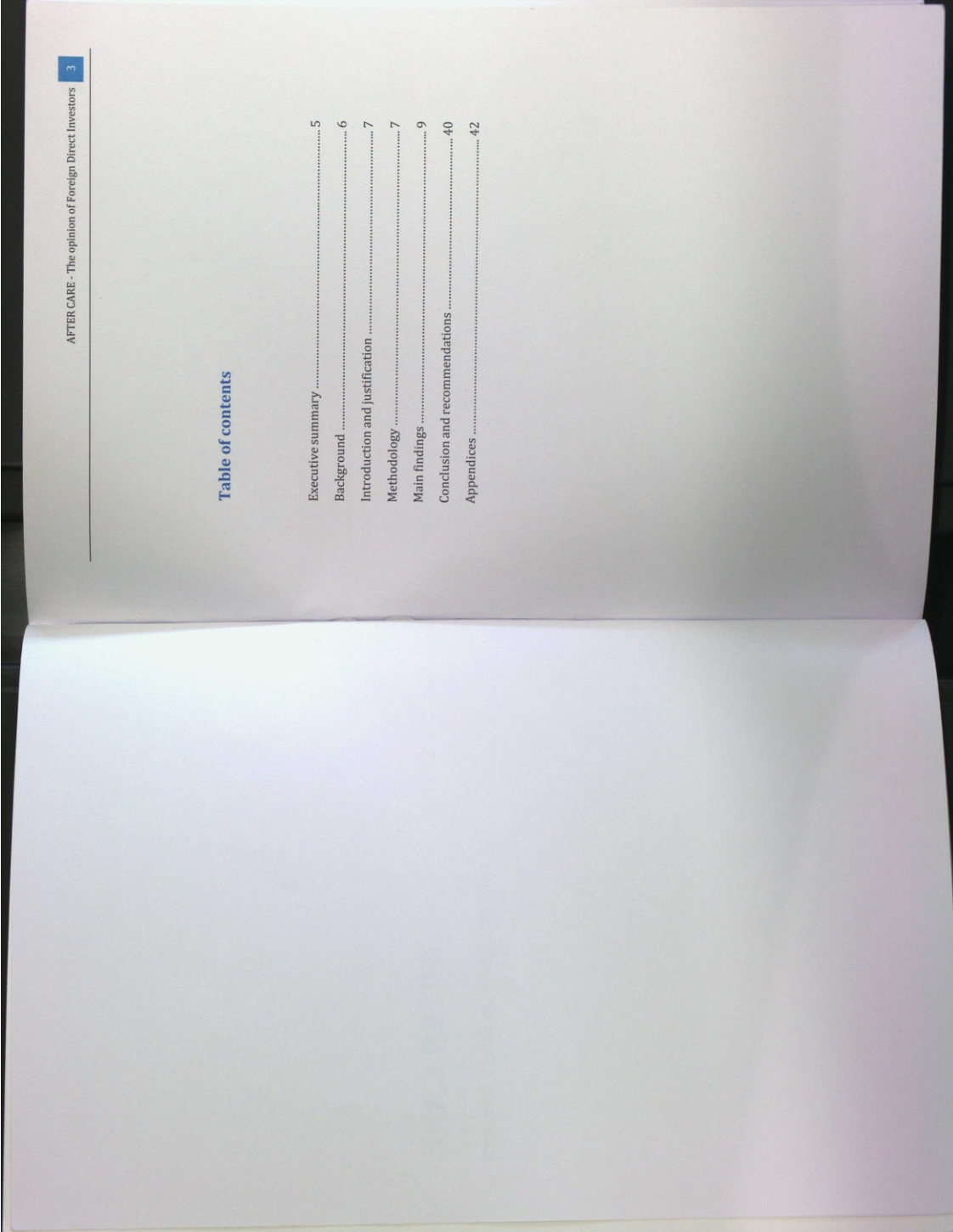
Financial Incentives			
Country	Subsidies	Employment Incentives	R&D Incentives
<i>Kosovo</i>	²⁵	-	-
<i>Albania</i>	-	-	-
<i>Bosnia & Herzegovina</i>	- The Investment Promotion Fund gives grants that can amount to EUR 150 000 - Financial incentive for tourism sector – small-scale state aid (grant)	-Employment support program	-Financial support for scientific, and research & development projects - Financial support for research in the field of technological development, knowledge and technology transfer, and encouragement of application of scientific research results
<i>Serbia</i>	- For large investments grants can amount to 20% of the amount of investment; -Grants in the amount of USD 2000-10 000 for Greenfield and Brownfield investments in exporting, production or R&D activities	- 4,000-10,000€ for each new job created conditional on a minimum amount of investment and persons employed; - One-time state grants in the amount of EUR 1 100 for the employment of persons, whose contracts were terminated due to the bankruptcy of a previous employer; - Salary tax exemptions - The apprentice program incentives: a) State grants for the professional training of novices; b) Providing salary reimbursements for a total of 10,000 first-time employees; c) The retraining programs in which expenses can be covered in the amount up to EUR 780 per employee	- Grants in the amount of EUR 2 000-10 000
<i>Montenegro</i>	- Capital investments of at least €10 million which ensure the opening of at least 50 new jobs	- Employment support programs	-
<i>Macedonia</i>	- Up to €500.000 grant as incentive towards building costs depending on the value of the investment and the number of employees	-	-

²⁵ IFC (2013) found evidence for financial incentives of subsidies, but Pula, Loxha, & Elshani (2017) probably did not take it into consideration due to patchy data collection from the government side.

Country	Other Incentives
<i>Kosovo</i>	<ul style="list-style-type: none"> - Multilateral Investment Guarantee Agency (MIGA) (member of the World Bank Group) guarantees investments in Kosovo up to the value of 20 million. - US Overseas Private Investment Corporation (OPIC) also provides political risk insurance for foreign investors in Kosovo. - Land lease for up to 99 years at attractive concessionary rates;
<i>Albania</i>	-Concessionary rates of 1€ for state owned assets, natural resources and economic activities;
<i>Bosnia & Herzegovina</i>	<ul style="list-style-type: none"> - Agreements on the investment protection promotion; free trade agreements; - FDI insurance instruments with European Union Investment Guarantee Trust Fund for Bosnia and Herzegovina; - Brcko district incentives Exemption from utility fees for displaying the company; Compensation of expenses of connection to power, water and sewage network and several administrative fee compensations; - Compensation for amount of new investments invested in purchase of fixed assets and up to the amount of determined and paid profit tax or income tax in period for the year in which purchases of fixed assets was made.
<i>Serbia</i>	<ul style="list-style-type: none"> - Trade Agreements - Foreign companies can establish a privately-owned Free Zone based on the project approved by the government. - Local Incentives such as: city construction land lease fee exemptions or deductions and land development fee relief
<i>Montenegro</i>	<ul style="list-style-type: none"> - Trade agreements with the EU, free trade with Russia and Turkey; average import customs is 6,6% - Land in Montenegro is available under long-term lease for a period of up to 99 years
<i>Macedonia</i>	- Land lease for up to 99 years at attractive concessionary rates; free connection to utilities; no customs duties for export production

2.5. After Care – The Opinion of Investors

The following survey was made available to the author during his stay in Prishtina. It is included in the appendix because of its unavailability through public sources and as the thesis significantly refers to it. The internal citation of the survey is KCC (2016).



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Executive summary

Kosovo Chamber of Commerce Aftercare did a survey with 250 current foreign investors in Kosovo from all regions of Kosovo, and wide-range of sectors (production / manufacturing 28%, services 27%, construction 6%, trade 31%, transport and distribution 7%, real estate 1%). The survey gathered information from business owners and business managers focusing on their perception on several factors regarding business environment (motivation for investment in Republic of Kosovo; experience in Republic of Kosovo; economic impact and outlook). Specific information was gathered on business climate conditions (political stability, economic stability, quality of infrastructure, country legal framework, quality of life, physical security, existing foreign investor's experiences, double taxation treaties), market conditions (local market; regional/continental market), local resources (low labour costs; availability of skilled labour, local suppliers) and other location factors (incentive package, Kosovo Investment Board (KIESA assistance). The companies interviewed perceived that most of the factors decreased in attractiveness over the past three years.

In total, from current investors, 176 made Greenfield investments, 58 joint-venture, 16 mergers and acquisitions.

One of the main findings of this survey shows that 60% of current investors expressed their commitment to re-invest and/or invest again in Kosovo, while considerable number of companies, 38%, declared that they would have no further investment plans. 2% of the companies are analysing possibilities for disinvestment.

In general, Kosovo institutions, business associations and other relevant stakeholders should be more committed in creating better conditions for current investors, in order to attract potential Foreign Direct Investors. Kosovo institutions should continue to advance legal framework for legal security of investors. This should include creation of legal mechanisms for guaranteeing enforcement of contracts and court system "fast-track" instruments for potential investment disputes. It is also very important to finalize the legal package for fiscal incentives for new investments, in order to enable new flow of investments in some of the most important sectors. Specialised agencies, including KIESA and business associations, should intensify efforts to improve communication with current investors and use this communication and information gathered to identify new instruments and policies, in terms of investment promotion.

This survey is a good basis for the private public dialogue in order to promote and increase foreign direct investment. Promotion of the business environment in Kosovo, as a "joint-venture" of Kosovo institutions, business associations and media should be focused in promotion of positive case studies from the current experiences of investors, as well as specific advantages of Kosovo in terms of investment policies, in comparison to the countries of the region.

Background

Kosovo's economy has shown progress in transitioning to a market-based system and sustains macroeconomic stability, but it is still highly dependent on the international community and the Diaspora for financial and technical assistance. An unemployment rate of 31% encourages emigration and fuels a significant informal, unreported economy. Remittances from the Diaspora - located mainly in Germany, Switzerland, Austria and the Nordic countries - are estimated to account for about 15% of GDP. International donor assistance accounts for approximately 10% of Republic of Kosovo's GDP. Kosovo enjoys lower labour costs than the rest of the region. Corruption is still prevalent and undermines the already restricted business environment. Political interference in the judiciary is troubling. Remnants of the centrally planned economy still linger in a government bureaucracy that makes business formation costly and onerous. However, high levels of corruption and little contract enforcement have discouraged potential investors. Kosovo is a member of the Central European Free Trade Agreement (CEFTA) region. Most sectors of the economy are open to foreign investment. Kosovo has several state-owned enterprises. The financial system, dominated by a small number of banks, remains limited in scope and depth (*Index of Economic Freedom*, 2015).

Taking into consideration the transitioning process of Kosovo and above mentioned obstacles, an important step towards economic development and the state as a whole is the signing of the Stabilization and Association Agreement (SAA), on 27th of October 2015, and recently January 2016, approved by the European Parliament, and implemented, since April 1st 2016.

Through various mechanisms and collaborations, Kosovo received help in the development of capacities, thereby facilitating the implementation of European standards. Among others, there is cooperation in areas such as trade and investment, small enterprises and medium enterprises, investment climate etc. SAA is a step forward for Kosovo's EU integration at the same time a new challenge for the country. This brought the need for different studies / research in order to improve the policies of the respective institutions, the creation of a stable economic environment, especially with regards to legal security for FDI's. Therefore, Kosovo Chamber of Commerce (KCC) in cooperation with Kosovo Investment Enterprise and Support Agency (KIESA), supported by British Embassy in Republic of Kosovo, proposed that other important information might be obtained by undertaking a study among foreign investors in the country with the aim to learn the most important aspects these investors have experienced. Hence, the project After Care was implemented with the intention to collect information on the positive and negative factors experienced by foreign investors in Republic of Kosovo. The result of these experiences will lead to a private public dialogue, through Kosovo's National Development Council and other mechanisms of the Public-Private Dialogues, focusing on advancing national investment promotion agenda, with a new incentive package, Law on Strategic investments, and creation of the new set of the mechanisms for legal protection of investors, in order to improve overall business environment and increase flow of new investments.

Introduction & Justification

Republic of Kosovo economy for some time now is having problems of taking off. One of the issues is non-optimal entrepreneurship and a business environment that could be more conducive. The economy needs to shift from consumer driven to investment driven, thus stimulating employment growth, and in turn reduce poverty.

Employment is mostly generated by the private sector. It can come from increased export or increased domestic production, possible import substitution. Seen the high level of imports and low level of production, there is room to produce locally, through attracting new inflow of Foreign Direct Investments and domestic capital in certain competitive sectors of the economy, especially manufacturing.

KCC has done research of the business climate. There is now a timeline of 12 quarters describing the business climate as perceived by the business sector. Further research has been done describing factors that hamper economic growth of enterprises. Additionally, KCC and KIESA officials met and postulated that other important information might be obtained by undertaking a study among foreign investors in the country with the aim to learn the most important aspects these investors have experienced.

This After Care study however dealt not only with the non-positive or dis-satisfying aspects, expressed by enterprises but mentions also positive elements. The outcome will contribute to After Care information to improve the situation for Foreign Direct Investment (FDI), actual and potential (of which the domestic enterprises will most probably also profit). It can likewise serve as input for private - public dialogue, as source of inspiration for further policy determination and strategy development, as well as stimulant to attract further foreign (or domestic) investment.

Thus, the picture will be a different one as shown in the business climate, and the bottleneck study and just as perceived by foreign investment. It is worth mentioning that KIESA has done a study on Investors perception and investment climate in 2014, as well as an after care study which was carried out in 2009 tackling FDI's.

Methodology:

After we launched the project in media and signed the contract between KCC - KIESA - British Embassy KCC received the list of companies from KIESA also from some other institutions and identified companies that were going to be interviewed.

The aim of After Care survey is to collect information with regards to foreign investors in Republic of Kosovo. Therefore, after we received the lists of FDI's from different institutions (KIESA, Central Bank, Embassy of Austria, British Chamber of Commerce, Embassy of Croatia, Czech Embassy, Embassy of Netherlands, Turkish Chamber of Commerce and Embassy of Switzerland which we used to complete our own list), we contacted the enterprises to arrange meetings and started visiting companies. KCC also used regional directors to help in finding the location of companies and identify other companies. While visiting companies, we discussed with executive staff of companies in order to collect more qualitative data. KCC interviewed companies from different

countries: Albania, Austria, Britain, Croatia, Czech Republic, Germany, Greece, Netherlands, Slovenia, Turkey, United Arab Emirates, United States of America and Switzerland.

The results presented in this report are based on 250 companies interviewed. KCC in cooperation with KIESA developed a questionnaire and implemented the survey. The survey was conducted through face-to-face interviews.

Questionnaire:

Please find the questionnaire in the appendix 1.

Major Findings:

The results of the interviews on factors in one chart:

	Importance of each factor					How have these factors changed over the past 5 years?				
	Not important	Important	Very important	Crucial	Very important	Much Worse	Worse	Same	Better	Much Better
A. Business Climate Conditions										
Political stability	67	53	45	46	16	2	53	149	23	0
Economic stability	19	39	67	33	34	22	23	131	38	0
Quality of infrastructure	10	44	89	42	23	7	98	94	8	2
Country legal framework	15	18	107	35	37	0	49	98	8	22
Quality of life	7	38	99	38	26	2	85	108	13	0
Physical security	10	37	101	19	5	2	64	103	3	0
Existing foreign investor's experiences	42	50	54	13	1	0	35	120	5	0
Double taxation treaties	50	23	68	8	4	1	20	123	9	0
B. Market conditions										
Local market	39	12	42	23	45	0	22	120	18	0
Regional/continental market	36	35	62	23	31	0	47	130	8	2
C. Local resources										
Low labour costs	30	33	71	36	42	10	69	129	4	1
Availability of skilled labour	13	25	85	41	35	4	63	118	11	3
Local suppliers	47	20	23	12	2	1	19	79	5	0
D. Other location factors										
Incentive package	94	11	8	7	0	0	4	110	6	0
Kosovo Investment Board (KIESA) assistance	78	24	5	3	1	0	1	106	3	0

From the table and the factors, we can see the following:

On Importance of factor - only 37 find the **Country legal framework** as crucial factor. For 49 situation is worse and 98 do not records any improvement on this factor

Economic stability is seen by 67 as important factor, but 176 have marked same, worse or much worse with no improvement over past 3 years

For 99 **quality of life** is important factor, but for 87 has got worse or much worse. 108 mark no changes in past 3 years

Quality of infrastructure is evidently/important, very important or crucial for 154. But situation has got worse or very worse for 105. And for 94 it is same over past 3 years

For 67 **political stability** is NOT important, while it went worse or very worse for 55, and for 149 this factor has stayed the same in past 3 years.

Physical security is important for 101, while for 103 is same in past 3 years

For 68 **double taxation treaties** are important. For 21 has got worse or very worse and in past 3 years for 123 has stayed same

Experience of foreign investors is important for 54 but has become worse for 35. No changes for 120 in past 3 years

On **market conditions**, 45 find Local market of crucial Importance. Still 22 find it worse and 120 record no improvement in past 3 years

For 62 **regional / continental markets** are important, but for 47 they got worse. For 130 no improvement over last 3 years

Low labour costs for 71 are important Still for 79 they are worse or very worse and for 129 no improvement in last 3 years

For 85 **availability of skilled labour** is Important. But for 67 it is worse or very worse and for 118 no improvement in last 3 years

For 47 **Local suppliers** are NOT important. While for 20 has got worse or very worse and for 79 no improvement over past 3 years

For 78 **support of KIESA** is NOT important. For 1 has got worse and for 106 KIESA support remains same in past 3 years

For 94 **Inclusive package** is NOT important. While for 4 has got worse and still 110 has remained the same in past 3 years

Ranking/importance of factors:

This table does not yet as such allow us to indicate what the enterprises consider as most important. Hence, some weighing was done. The factor not important got weight -2, helpful -1, important 0, very important +1, crucial +2. This lead to the following "prioritization":

score	factor
61	Country legal framework
60	Availability of skilled labour
38	Quality of Life
27	Low labour costs
24	Economic stability
24	Quality of infrastructure
23	Local market
-22	Regional/continental market
-28	Physical security
-98	Local suppliers
-107	Double taxation treaties
-109	Political stability
-119	Existing foreign investor's experiences
-175	Kosovo Investment Board (KIESA) assistance
-192	Incentive package

Improvement of factors:

When we add the weighed perception on improvement to this table, we get the following result:

score	factor	improvement
61	Country legal framework	25
60	Availability of skilled labour	54
38	Quality of Life	76
27	Low labour costs	85
24	Economic stability	-15
24	Quality of infrastructure	100
23	Local market	5
-22	Regional/continental market	43
-28	Physical security	65
-98	Local suppliers	16
-107	Double taxation treaties	13
-109	Political stability	-34
-119	Existing foreign investor's experiences	30
-175	Kosovo investment Board (KIESA) assistance	-2
-192	Incentive package	-1

A good number improved!

Detailed findings :

The After Care Interview was divided in five sections:

1. Profile of Company and its investment in Republic of Kosovo;
2. Motivation for investment in Republic of Kosovo;
3. Experience in Republic of Kosovo (with KIESA);
4. Economic Impact and Outlook;
5. Additional questions and contact details.

We interviewed 250 FDI companies throughout Republic of Kosovo using the secondary data we got from different institutions as previously mentioned; simultaneously a database was compiled with the information of 250 FDI companies.

Within the number of 250 FDI companies we interviewed, almost 100 companies export their products outside Republic of Kosovo. The countries where they export to are : Africa, Albania, America, Austria, Belgium, Bosnia and Herzegovina, Bulgaria, China, Croatia, France, Germany, Greece, Italy, Kazakhstan, Macedonia, Montenegro, Netherlands, Poland, Serbia, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United Arab Emirates.

These investments in Republic of Kosovo generated employment. The average number of employees in 250 FDI companies we interviewed is 60 employees*.

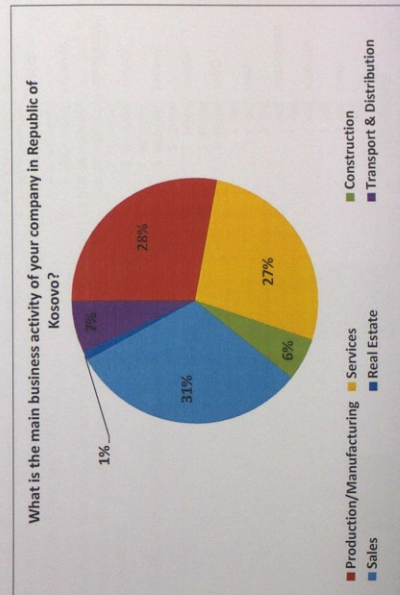
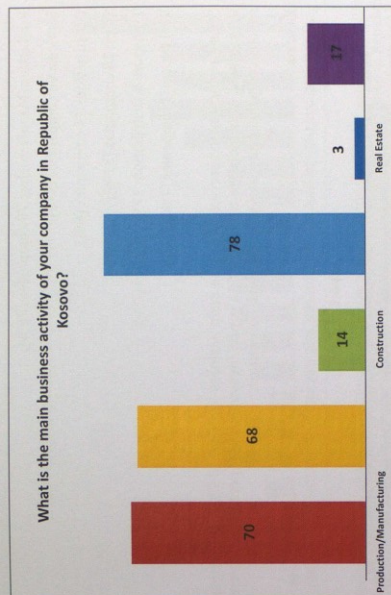
*One of the companies contributed with 2400 employees in this average.

The average of total annual sales revenue of FDI operation for those companies that supplied this information in 2014 is: 3.821.855.60 EUR while the total annual sales revenue for 2014 of FDI companies interviewed is 466,266,383.50 EUR.

Profile of Company and its investment in Republic of Kosovo:

This section displays a general profile of 250 FDI companies interviewed and how their investment performed in Republic of Kosovo.

Main business activity of interviewed FDI companies in Republic of Kosovo:



As you can see from the graphs above, from 250 FDI companies which we interviewed from different sectors we had:

Production/Manufacturing: 70 companies (28%);

Services: 68 companies (27%);

Construction: 14 companies (6%);

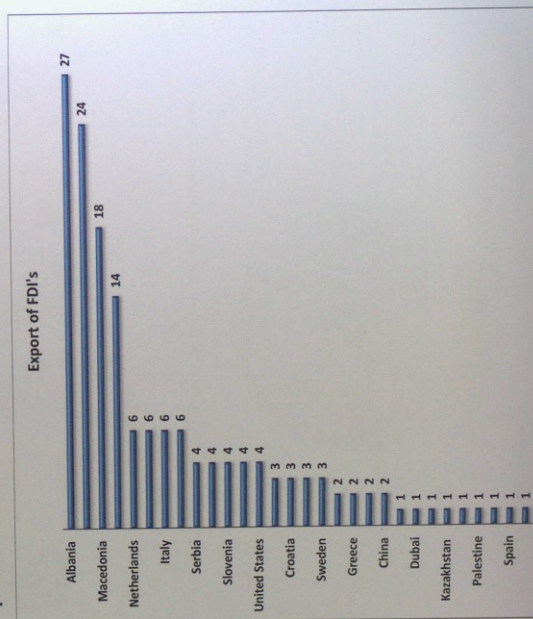
Sales: 78 companies (31%);

Transport & Distribution: 17 companies (7%);

Real Estate: 3 companies (1%);

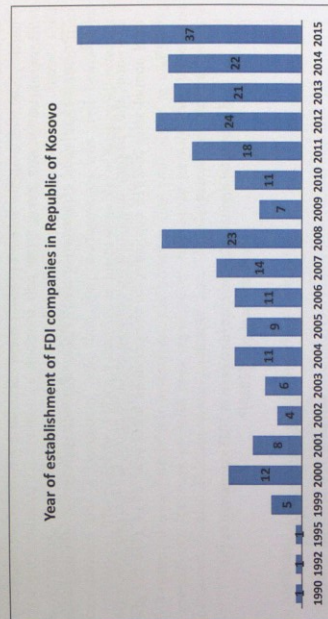
Sales, production and services were the main business activities of 250 FDI companies interviewed. This indicates that there is a gap in investment and potential to invest in construction, real estate and transport and distribution.

Exports:



As seen in the graph above, Albania, Germany and Macedonia are three top destination countries for FDI companies in Kosovo.

Year of establishment of company's operation in Republic of Kosovo:

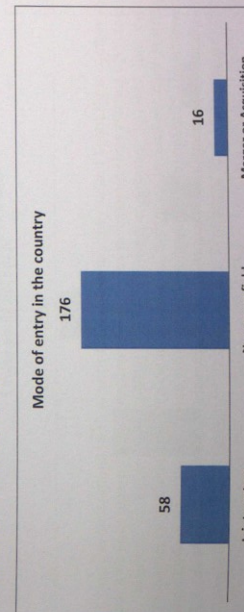


During the interview of FDI companies, we asked also for the year of establishment of their activity in Republic of Kosovo. Most of FDI companies were established in Republic of Kosovo from 2000 and on. As you can see from the graph, 2008, 2012 and 2015 seem that have been the most favourable years to start the operation in Republic of Kosovo.

It is very important to highlight that only during 2015, 36 out of 250 FDI companies interviewed were established and invested 22,005,000.00 EUR in Republic of Kosovo. The Ministry of Trade and Investment indicated that total investment were around 400,000,000 (see appendix 2)

Regarding the mode of entry of FDI companies in Republic of Kosovo, we had three categories in questionnaire: a) Joint venture, 2) New Greenfield and c) Merger or Acquisition.

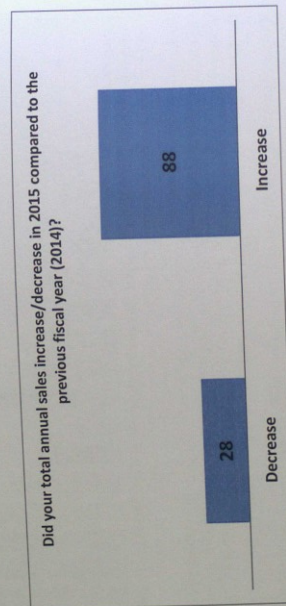
(See the answers in the graph below):



As seen in the above graph, the majority (176 out of 250 companies) of FDI's in Republic of Kosovo entered the country as New Greenfields. This shows that these investors participated with a higher amount of investment contributing with an average value of investment of 744,603,200.00 EUR*.

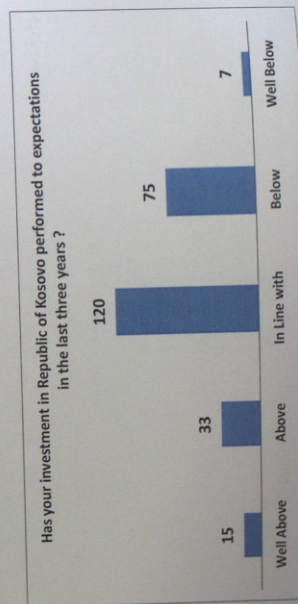
*The current total value of investment of 250 FDI's in Republic of Kosovo is 1,057,675,000.00 EUR.

116 out of 250 FDI companies interviewed also declared about the increase/decrease in total annual sales in 2015 compared to the previous fiscal year 2014. (See the graph below):



88 out of 116 FDI companies interviewed, experienced an increase in total annual sales.

FDI's expectations and performance

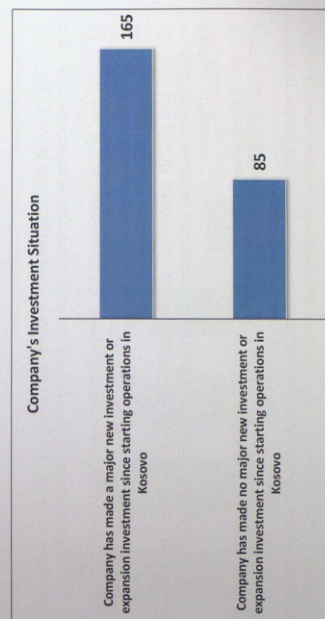


During the interviews, FDI companies discussed regarding the performance of their companies and their expectations in the last three years. From 250 answers, we had 120 companies who said that their investment in Republic of Kosovo performed in line with their expectations, 75 companies declared that their performance was below their expectations, 33 companies declared that their performance was above their expectations, 15 companies said that their performance was well above their expectations and 7 companies said that their performance was well below their expectations. The majority of FDI's claimed that due to Republic of Kosovo's limited local market, they did not have high expectations on investment returns.

168 companies declared their investment performed in line with, above or well above expectations. Increase of sales was reported by 88; hence performance is not just measured in sales. Further, it was indicated that 165 enterprises consider further new investment.

B. Motivation for Investment in Republic of Kosovo

Company's situation:



During the discussions we had with FDI companies, they talked about their company's situation with regards to their expansion or any new investment since starting operations in Republic of Kosovo. 165 (66%) FDI interviewed companies declared that their companies have made a major new investment or expansion investment since starting operations in Republic of Kosovo, while 85 FDI companies (34%) out of 250 interviewed FDI companies declared that their companies have made no major new investment or expansion investment since starting operations in Republic of Kosovo. This proves that even though current investors' expectations were not high (see graph); they did see potential to reinvest and/or expand their investment in Republic of Kosovo.

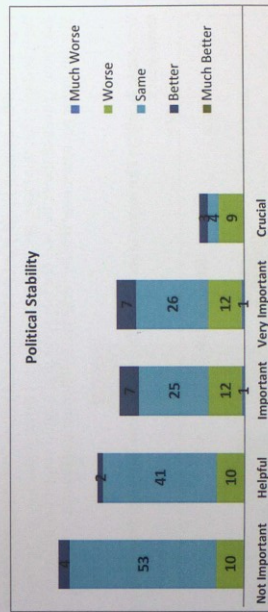
contacts/partners. These figures reflect the lack of information provided to FDI's by relevant institutions. This shows that there is a considerable amount of potential foreign investors, whom Republic of Kosovo Investment Board Assistance should find a strategic way to approach and give relevant investment information and data.

Important Factors:

It is very important to know what made these FDI companies invest in Republic of Kosovo, therefore we ranked some relevant factors which made them choose to invest in Republic of Kosovo and also we asked the companies how they think these factors changed over the past three years. The factors are divided in four sections: a) Business Climate Conditions; b) Market Conditions; c) Local resources; d) Other location factors.

Business Climate Conditions:

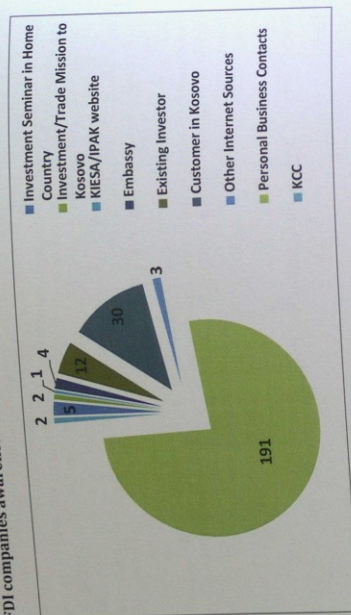
Political Stability: The importance of this factor and how it changed over the past three years:



FDI's interviewed claimed that political stability is an important factor when considering investing in a foreign country. However, considering Republic of Kosovo's political instability through years, some of FDI's that chose to invest here did not see political stability as an important factor to influence their decision to carry out their investment in Republic of Kosovo.

As you can see from the graph, 67 FDI interviewed companies declared that Political Stability was not important at the very beginning of the decision to carry out their investment in Republic of Kosovo, while 10 of them declared that this factor got worse over the past three years, 53 out of 67 said that this factor remained the same over the last three years and 4 companies out of 67 said that this factor got better over the last three years in Republic of Kosovo.

FDI companies awareness of investment opportunities in Republic of Kosovo:



191 (76.4%) out of 250 interviewed FDI companies declared that their company was originally made aware of investment opportunities through Personal Contacts;

30 (12%) out of 250 interviewed FDI companies declared that their company was originally made aware of investment opportunities through a Customer in Republic of Kosovo;

12 (5%) out of 250 interviewed FDI companies declared that their company was originally made aware of investment opportunities through an Existing Investor in Republic of Kosovo;

5 (2%) out of 250 interviewed FDI companies declared that their company was originally made aware of investment opportunities through Investment Seminar in Home Country;

4 (1.6%) out of 250 interviewed FDI companies declared that their company was originally made aware of investment opportunities through the Embassy of Republic of Kosovo in their home Country;

3 (1.2%) out of 250 interviewed FDI companies declared that their company was originally made aware of investment opportunities through Internet Sources;

2 (0.8%) out of 250 interviewed FDI companies declared that their company was originally made aware of investment opportunities through KCC;

1 (0.4%) out of 250 interviewed FDI companies declared that their company was originally made aware of investment opportunities through KIESA website;

As previously mentioned, 191 (76.4%) FDI companies interviewed declared that they chose to invest in Republic of Kosovo through information provided by personal business

As seen in the graph above, economic stability was an important factor for FDI's. Even though a number of FDI's claimed that Republic of Kosovo does not have economic stability, they chose to contribute in economic growth.

19 FDI interviewed companies declared that Economic Stability was not important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

39 FDI interviewed companies declared that Economic Stability was helpful at the very beginning of the decision to carry out their investment in Republic of Kosovo;

67 FDI interviewed companies declared that Economic Stability was Important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

33 FDI interviewed companies declared that Economic Stability was very important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

34 FDI interviewed companies declared that Economic Stability was crucial at the very beginning of the decision to carry out their investment in Republic of Kosovo;

Quality of Infrastructure: The importance of this factor and how it changed over the past three years:



Quality of infrastructure was an important factor for FDI's and as shown from the data above it did get better through years.

10 FDI interviewed companies declared that Quality of Infrastructure was not important at the very beginning of the decision to carry out their investment in Republic of Kosovo

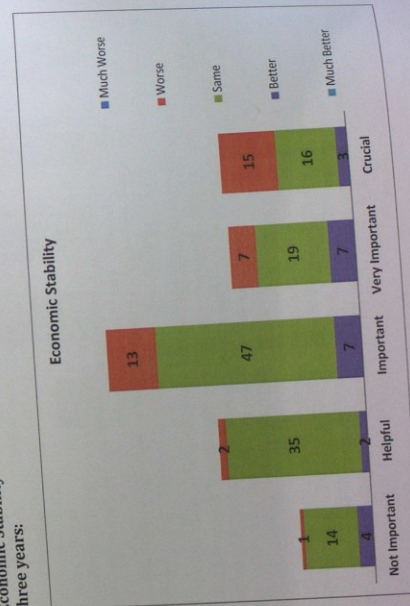
53 FDI interviewed companies declared that Political Stability was helpful at the very beginning of the decision to carry out their investment in Republic of Kosovo, while 10 of them declared that this factor got worse over the past three years, 41 out of 53 said that this factor remained the same over the last three years and 2 companies out of 53 said that this factor got better over the last three years in Republic of Kosovo.

45 FDI interviewed companies declared that Political Stability was Important at the very beginning of the decision to carry out their investment in Republic of Kosovo, while one of them declared that this factor got much worse over the past three years, 12 out of 45 said that this factor got worse over the last three years, 25 out of 45 said that this factor remained the same over the last three years and 7 of them declared that this factor got better.

46 FDI interviewed companies declared that Political Stability was Very Important at the very beginning of the decision to carry out their investment in Republic of Kosovo, while one of them declared that this factor got much worse over the past three years, 12 out of 46 said that this factor got worse over the last three years, 26 out of 46 said that this factor remained the same over the last three years and 7 of them declared that this factor got better.

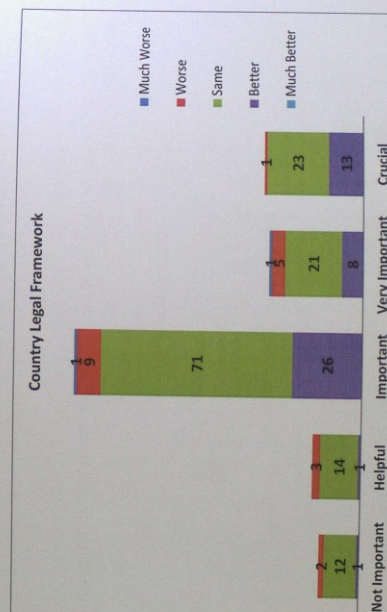
16 FDI interviewed companies declared that Political Stability was Crucial at the very beginning of the decision to carry out their investment in Republic of Kosovo, while 9 of them declared that this factor got worse over the past three years, 4 out of 16 said that this factor remained the same over the last three years and 3 companies out of 16 said that this factor got better over the last three years in Republic of Kosovo.

Economic Stability: The importance of this factor and how it changed over the past three years:



- 44 FDI interviewed companies declared that Quality of Infrastructure was helpful at the very beginning of the decision to carry out their investment in Republic of Kosovo;
- 89 FDI interviewed companies declared that Quality of Infrastructure was important at the very beginning of the decision to carry out their investment in Republic of Kosovo
- 42 FDI interviewed companies declared that Quality of Infrastructure was very important at the very beginning of the decision to carry out their investment in Republic of Kosovo;
- 23 FDI interviewed companies declared that Quality of Infrastructure was crucial at the very beginning of the decision to carry out their investment in Republic of Kosovo;

Country legal framework: The importance of this factor and how it changed over the past three years:

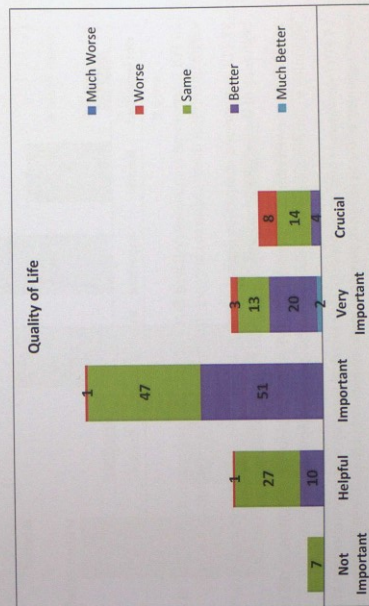


Country legal framework was an important factor for FDI's. However, some investors claimed that there is a lack of law execution by relevant institutions.

- 15 FDI interviewed companies declared that Country Legal Framework was not important at the very beginning of the decision to carry out their investment in Republic of Kosovo;
- 18 FDI interviewed companies declared that Country Legal Framework was helpful at the very beginning of the decision to carry out their investment in Republic of Kosovo;

- 107 FDI interviewed companies declared that Country Legal Framework was important at the very beginning of the decision to carry out their investment in Republic of Kosovo;
- 35 FDI interviewed companies declared that Country Legal Framework was very important at the very beginning of the decision to carry out their investment in Republic of Kosovo;
- 37 FDI interviewed companies declared that Country Legal Framework was crucial at the very beginning of the decision to carry out their investment in Republic of Kosovo;

Quality of Life: The importance of this factor and how it changed over the past three years:



7 FDI interviewed companies declared that Quality of Life was not important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

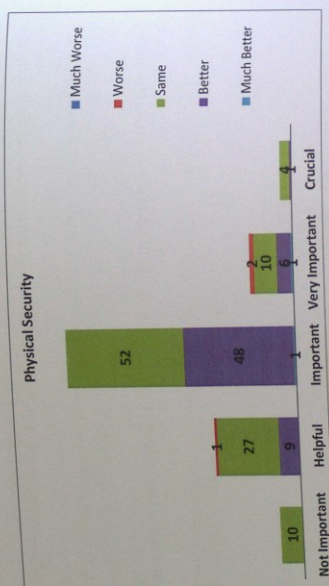
38 FDI interviewed companies declared that Quality of Life was helpful at the very beginning of the decision to carry out their investment in Republic of Kosovo;

99 FDI interviewed companies declared that Quality of Life was important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

38 FDI interviewed companies declared that Quality of Life was very important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

26 FDI interviewed companies declared that Quality of Life was crucial at the very beginning of the decision to carry out their investment in Republic of Kosovo;

Physical Security: The importance of this factor and how it changed over the past three years:



10 FDI interviewed companies declared that Physical Security was not important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

37 FDI interviewed companies declared that Physical Security was helpful at the very beginning of the decision to carry out their investment in Republic of Kosovo;

101 FDI interviewed companies declared that Physical Security was important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

19 FDI interviewed companies declared that Physical Security was very important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

5 FDI interviewed companies declared that Quality of Life was crucial at the very beginning of the decision to carry out their investment in Republic of Kosovo;

Existing Foreign Investor's Experiences: The importance of this factor and how it changed over the past three years:

42 FDI interviewed companies declared that Existing Foreign Investor's Experiences was not important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

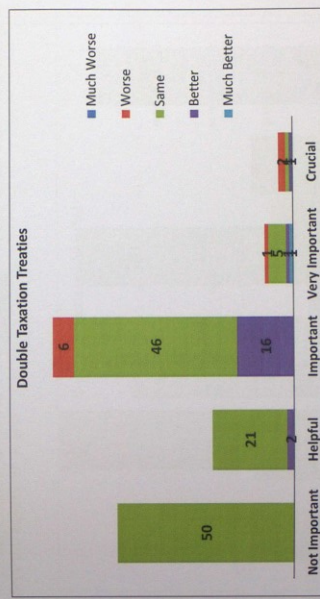
50 FDI interviewed companies declared that Existing Foreign Investor's Experiences was helpful at the very beginning of the decision to carry out their investment in Republic of Kosovo;

54 FDI interviewed companies declared that Existing Foreign Investor's Experiences was important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

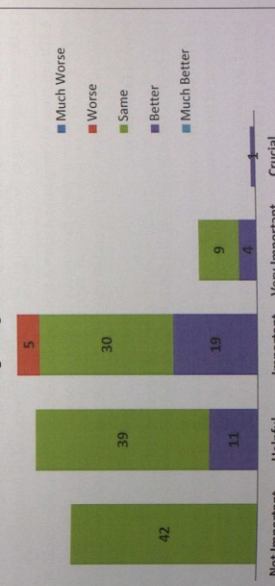
13 FDI interviewed companies declared that Existing Foreign Investor's Experiences was very important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

1 FDI interviewed companies declared that Existing Foreign Investor's Experiences was crucial at the very beginning of the decision to carry out their investment in Republic of Kosovo;

Double Taxation Treaties: The importance of this factor and how it changed over the past three years:



Existing Foreign Investor's Experiences



50 FDI interviewed companies declared that Double Taxation Treaties was not important at the very beginning of the decision to carry out their investment in Republic of Kosovo;
23 FDI interviewed companies declared that Double Taxation Treaties was helpful at the very beginning of the decision to carry out their investment in Republic of Kosovo;
68 FDI interviewed companies declared that Double Taxation Treaties was important at the very beginning of the decision to carry out their investment in Republic of Kosovo;



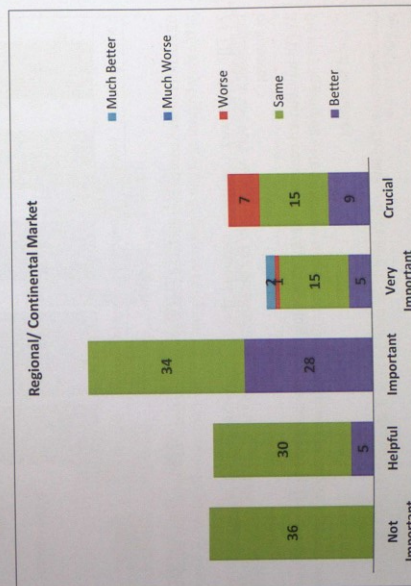
8 FDI interviewed companies declared that Double Taxation Treaties was very important at the very beginning of the decision to carry out their investment in Republic of Kosovo;
4 FDI interviewed companies declared that Double Taxation Treaties was crucial at the very beginning of the decision to carry out their investment in Republic of Kosovo;

Market Conditions

Local Market: The importance of this factor and how it changed over the past three years:
39 FDI interviewed companies declared that Local Market was not important at the very beginning of the decision to carry out their investment in Republic of Kosovo;
12 FDI interviewed companies declared that Local Market was helpful at the very beginning of the decision to carry out their investment in Republic of Kosovo;

42 FDI interviewed companies declared that Local Market was important at the very beginning of the decision to carry out their investment in Republic of Kosovo;
23 FDI interviewed companies declared that Local Market was very important at the very beginning of the decision to carry out their investment in Republic of Kosovo;
45 FDI interviewed companies declared that Local Market was crucial at the very beginning of the decision to carry out their investment in Republic of Kosovo;

Regional/Continental Market: The importance of this factor and how it changed over the past three years:



36 FDI interviewed companies declared that Regional/Continental Market was not important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

35 FDI interviewed companies declared that Regional/Continental Market was helpful at the very beginning of the decision to carry out their investment in Republic of Kosovo;



62 FDI interviewed companies declared that Regional/Continental Market was important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

23 FDI interviewed companies declared that Regional/Continental Market was very important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

31 FDI interviewed companies declared that Regional/Continental Market was crucial at the very beginning of the decision to carry out their investment in Republic of Kosovo;

C) Local Resources

Low labour cost: The importance of this factor and how it changed over the past three years:

30 FDI interviewed companies declared that Low Labour Costs was not important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

33 FDI interviewed companies declared that Low Labour Costs was helpful at the very beginning of the decision to carry out their investment in Republic of Kosovo;

71 FDI interviewed companies declared that Low Labour Costs was important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

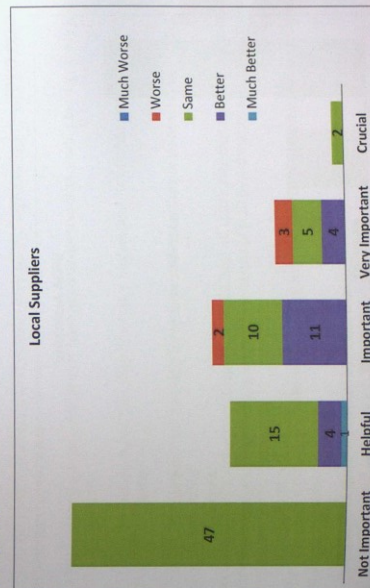
36 FDI interviewed companies declared that Low Labour Costs was very important at the very beginning of the decision to carry out their investment in Republic of Kosovo;

42 FDI interviewed companies declared that Low Labour Costs was crucial at the very beginning of the decision to carry out their investment in Republic of Kosovo;

D) Availability of Skilled Labour: The importance of this factor and how it changed over the past three years:



E) Local Suppliers: The importance of this factor and how it changed over the past three years:



D) Other location factors

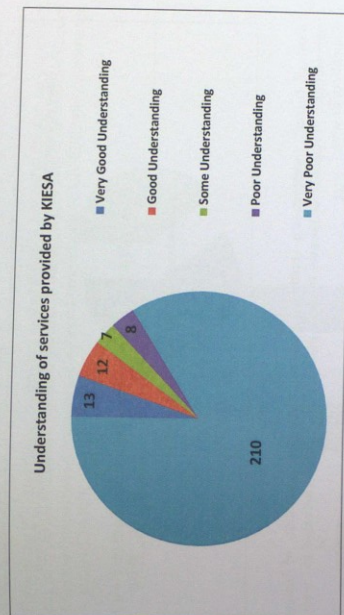
Incentive Package: The importance of this factor and how it changed over the past three years:



KIESA Assistance: The importance of this factor and how it changed over the past three years:



C) Experience in Republic of Kosovo and with KIESA



Understanding of services provided by KIESA

The graph of understanding of services provided by KIESA, shows that 210 FDI companies declared that they have very poor understanding of what services the KIESA offers to investors;

13 FDI companies declared that they have very good understanding of what services the KIESA offers to investors;

12 FDI companies declared that they have good understanding of what services the KIESA offers to investors;

8 FDI companies declared that they have poor understanding of what services the KIESA offers to investors;

7 FDI companies declared that they have some understanding of what services the KIESA offers to investors;

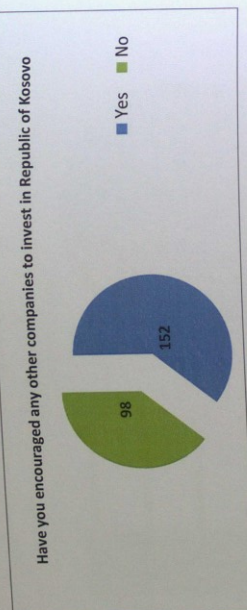
According to FDI companies responds, KIESA and all other relevant institutions should improve the way of approaching investors, in terms of staff performance and PR activities for Republic of Kosovo.

The two most valuable services offered from KIESA that FDI companies which declared they received are:

Information on general country business climate;

Fairs organized by KIESA;

FDI companies respond on if they have you encouraged any other companies to consider investing in Republic of Kosovo.



Most of current investors are remaining committed to the promotion of business opportunities in Republic of Kosovo, towards potential companies interested to invest in Republic of Kosovo.

The main obstacles faced by FDI's in doing business in Republic of Kosovo (see the table below):

Political instability
Economic instability
Cost of bank financing
Unfair Competition
Corruption
Reliability of electricity
Reliability of water supply
Administrative Procedures
Lack of Incentives
Lack of legal framework
Brand falsification
Unstable local suppliers
Nepotism
Crime
Customs

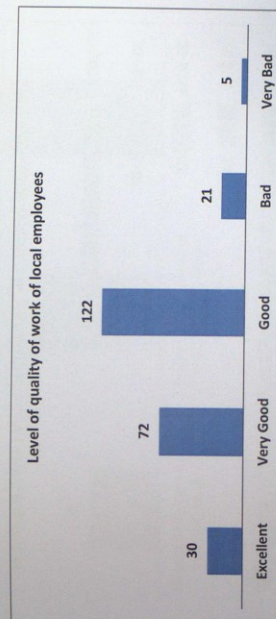
Most of FDI interviewed companies declared that if they were not currently located in Republic of Kosovo and still have the freedom to decide on the optimal location of their current operation, their preferred location today for investment to serve their export markets would be: Albania, Bulgaria, China, Croatia, Dubai, Germany, Greece, Macedonia, Netherlands, Rumania, Serbia, Turkey and United Kingdom.

D) Economic Impact and Outlook

Annual wages paid in Republic of Kosovo

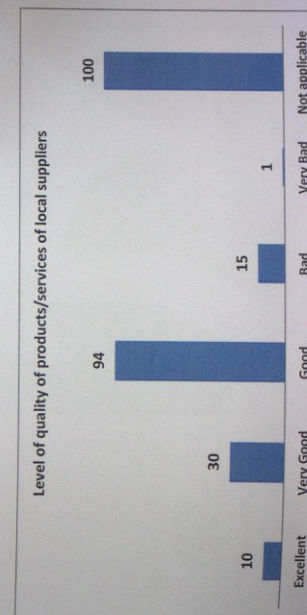
Some of the FDI interviewed companies shared the total amount of the annual wages they pay in Republic of Kosovo. The total amount of annual wages paid in Republic of Kosovo from the companies who shared the information is 62,096,483.00 EUR, while the average is 316,818.79 EUR.

Views on the level of quality of work of local employees



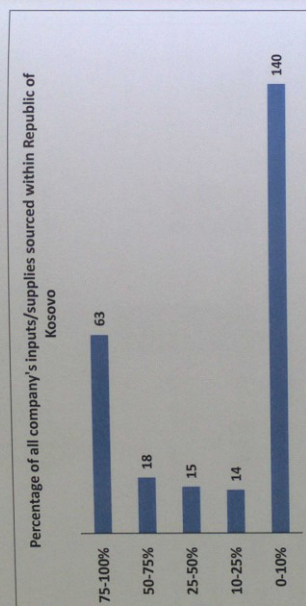
In general, the level of quality of work of current local employees is remaining good (122), but there should be more focus of the work force for production/manufacturing skills development.

Views on the level of quality of products/services of local suppliers



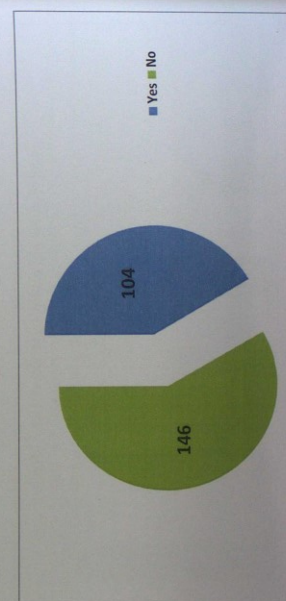
Existing supply from local suppliers is good (94), but substantial number of FDI companies (100) are not finding their supplies domestically. Considering local outsourcing, linking the rather positive view on local suppliers, incentives could be considered to increase local outsourcing.

Percentage of all company's inputs/supplies sourced within Republic of Kosovo

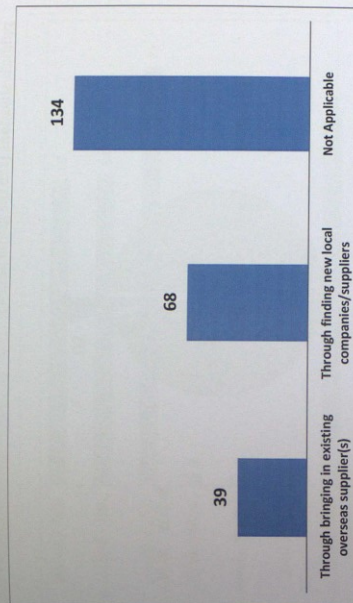


Most companies outsourced very limited within Kosovo, although an important number considered the local suppliers of good quality.

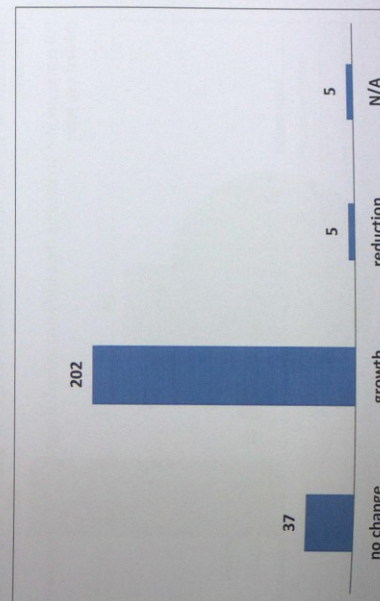
When FDI companies were asked if they are actively seeking to increase the percentage of local inputs/suppliers in Republic of Kosovo, they answered (see the table below):



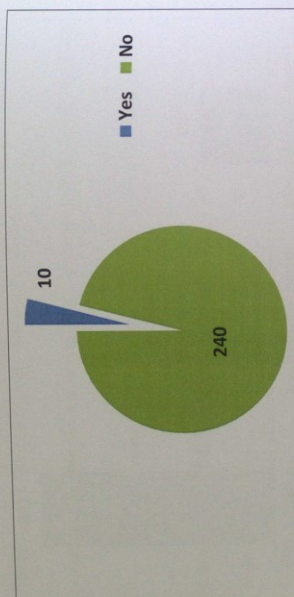
Preferred method of FDI companies to increase local inputs/pool of local suppliers



For company's current operations, what sales growth does the company expect per annum over the next two years?



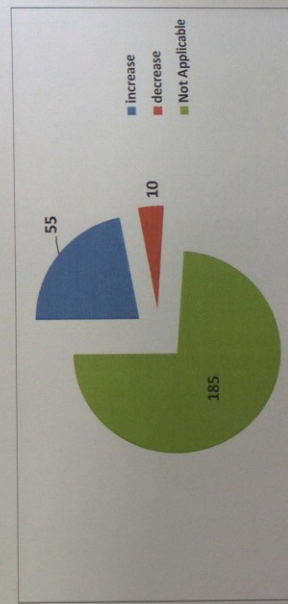
FDI interviewed companies also declared about the fiscal or financial support from public institutions (see the graph below):



The majority (240 out of 250) of interviewed FDI companies declared that they did not receive any fiscal or financial support/incentives from Government of Kosovo.

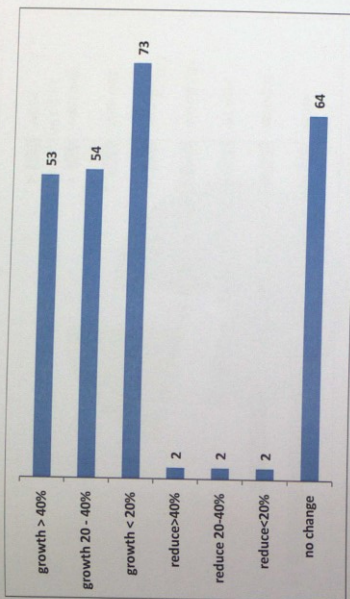
Only 10 out of 250 FDI companies interviewed declared that they received support from Government of Kosovo. However, incentive packages in general receive limited importance.

FDI companies also declared on the anticipated annual change in export revenues over the next two years



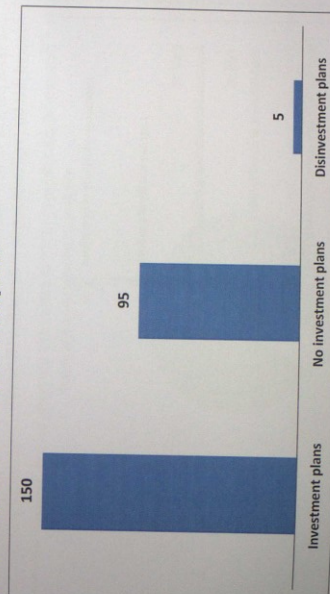
185 out of 250 FDI's do not export.

Expectations of FDI interviewed companies for employment over the next three years in Republic of Kosovo



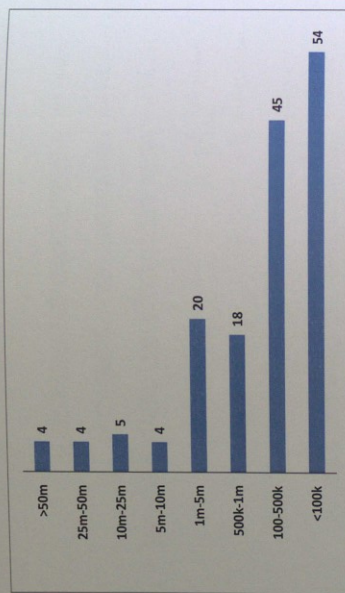
This seems to indicate that indeed, FDI is important for employment growth.

Investment plans of FDI interviewed companies



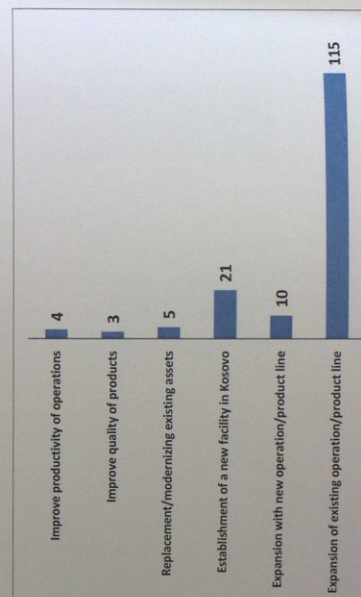
One of the main findings of this survey shows that 60% of current investors expressed their commitment to re-invest and/or invest again in Kosovo, while considerable number of companies, 38%, declared that they would no further investment plans. 2% of the companies are analysing possibilities disinvestment.

Level of new investments



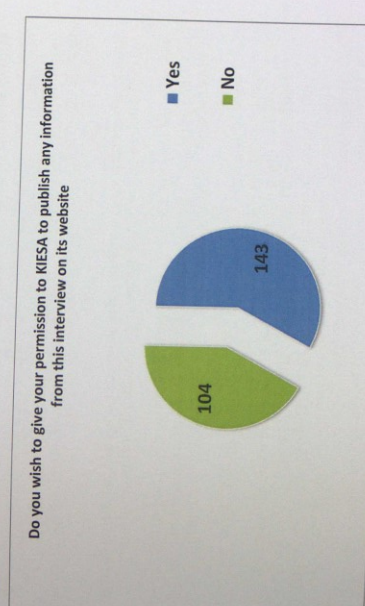
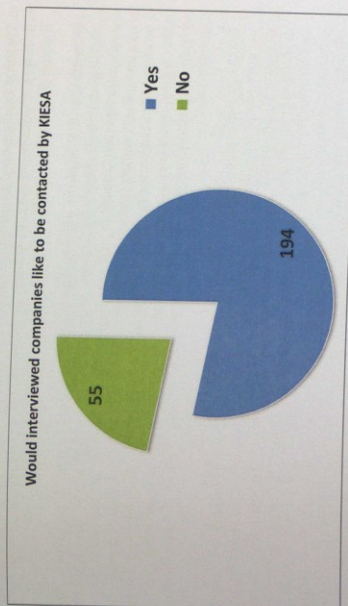
These are considered important levels of investment.

The main purpose of new investment (see below the answers of FDI companies who declared that they will invest again in Republic of Kosovo)



The majority of FDI's interviewed who declared that they will re-invest, the main purpose of the new investment would be expansion of existing operation/product line.

E) Additional Questions



Conclusions and recommendations:

The "after Care" gave insight in positive and negative, crucial and not important factors. From it, it may impact policy making, strategy orientation and investment promotion. It will likewise allow a private public dialogue on objectives, strategies and instruments.

Nevertheless, KCC is of the opinion that the economic environment must become more enabling and conducive for investment, through the introduction of the "new legislative package for investors", aiming to provide regulation and mechanisms for: fiscal incentives, new investments and job creation, legal protection of investors, political risk guarantees, and reform of education sector, focusing on tailor-made programmes made for job-market needs. This is good for business, and will lead to more domestic and foreign investment, and thus create employment; creation of employment should be very high on the agenda of the government.

For the business sector, creation of employment is a result of sound business practices; for the government it could be an objective. Thus, the government would be well advised to recognize the key factors, mentioned here by the foreign investors. For example in terms of availability of skilled labour the government could develop policies that are targeting skills development of young population, based on Vocational Education and Training schemes, in cooperation with schools and business associations that could play crucial role in bridging education system with private sectors needs in terms of new skills needed for creation of new jobs and competitiveness. The recent projects KCC has been engaged in regarding vocational training point to the necessity to improve the vocational education schools, and stimulate them to cooperate with the business sector. In this way, the programmes (and as a result the graduated students) can be tailored to the needs of the Kosovo enterprises.

In almost all surveys, the legal framework is mentioned as a factor to be improved, and to be more specific, the implementation and upholding of laws as well. The laws might be good enough; however, they must also be enforced. When not being enforced, justice cannot be realized.

Further dialogue between government and private sector is needed, in order to tackle issues and realize the potential of the private sector for growth and employment creation.

Regarding the image of Kosovo, and the portrayed strong points, nowadays the young population scores high in promotion for attracting foreign investment. From our interviews, we have heard a few other interesting items. These might be useful in promoting Kosovo.

- Kosovo mind-set is focused on being helpful for the foreigners; this means very high degree of service orientation;
- Low labour cost; labour is still cheap but it must be taken into consideration that it is not just the costs but also what it produces (value for money)
- Infrastructure; Kosovo does invest in infrastructure like roads, railway, energy, ICT
- CEFTA and EU; close to the EU market, and also the ex-Yugoslavia market as the regional market mentioned in the questions
- Attractiveness for Diaspora; a Diaspora that has willingness and interest to promote the growth of Kosovo

Considering local outsourcing, linking the rather positive view on local suppliers, incentives could be considered to increase local outsourcing.

Recommendations

Considering the results of the research, following recommendations would be useful to increase and coordinate efforts for After Care services to current investors and to advance promotion activities for potential investors:

1. Improvement of KIESA databases of current investors: It is essential for any investment promotion organization to know its market: which firms are established with foreign capital, what the nature of their activities is in the country, and who the key corporate officials in the relevant decision-making units are. This requires desk and field research that could be conducted in partnership with Kosovo Chamber of Commerce, considering the activities of the Chamber regarding the Business Climate (quarterly reports) and the Bottleneck (annual report). The information gathered from these surveys is also very relevant for Foreign Direct Investors. It is an instrument to improve the Kosovo economy to become enabling. These databases can then be examined to see if there are any statistical characteristics of established firms, such as products, services provided, markets, export orientation, size and country of origin, that throw light on the nature of the established, and to identify other potential investors that can be attracted to invest in the country.
2. Implementation of the research results and draft short – term, mid – term and long – term objectives for investment promotion: KIESA and other stakeholders should consider the feedback and results of the After Care investors' survey, the economic development aims of the country to see where overlaps or mismatches are, in terms of aftercare services for current investors, investment promotion activities and country's attractiveness for foreign capital. A decision to take at this stage is the extent to which other economic development institutions will be included or excluded from setting aims and objectives of the aftercare and investment promotion programmer, and it must be kept in mind that the KIESA will need to collaborate with several such institutions (chambers of commerce, diplomatic or consular organizations, outsourced service providers and government ministries and agencies), to deliver an effective aftercare and investment promotion service.
3. Establishment of aftercare unit and aftercare programme, within KIESA: KIESA and its partners should develop aftercare measures, driven by a longer-term view with regard to current and potential investors, not as a series of ad hoc, disconnected interventions. From such a perspective, aftercare services can be categorized as administrative, operational and strategic. The greatest contribution of aftercare is to be found in the strategic services, in order to ensure maximum long-term economic impact by the foreign investors on the Kosovo's economy. The successful investment cases from other countries are showing that cost of winning investments through aftercare is less than that of generating investments from new companies. The process of ensuring maximum economic impact also helps to identify key areas for policy advocacy.
4. KIESA and its partners should increase their efforts in tackling necessary efforts to address key issues addressed by investors interviewed in this After Care research: Public – Private dialogue should be intensified for the evaluation and the development of specific national strategies and operational plans for improvement of rule of law enforcement instruments, related with legal security for current and potential investors, as well as re-design of the strategies and plans for skills development, in line with needs and demand of the job-market. KIESA could play facilitating role in this process.